

FY 2003 EXECUTIVE BUDGET

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STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

JOHN ENGLER
GOVERNOR

February 7, 2002

To the Citizens of Michigan:

Every budget – whether it is for a family, business or government – represents many difficult decisions. The first decision is always the most important because it means answering the question: What are your priorities? For a family, priorities might include saving for a new home, retirement or your children's college education. For a business, priorities could be capital investment to build new factories or funding for research and development to develop innovative technologies. Budget decisions must be made in the context of those priorities.

For Michigan, our top priority continues to be public education. From day one, every budget decision has reflected a commitment to education as the key to Michigan's future. Indeed, since 1990, our investment in students attending public K-12 schools has grown by nearly \$7 billion – an increase of more than 90 percent! This budget builds on that record of success and increases the foundation allowance to \$6,700 per pupil while funding at-risk, school readiness, math and science centers, career preparation and other education programs at current year levels. In addition, funding for higher education will remain constant for those universities that restrain tuition growth and keep college affordable. The bottom line is that despite tough economic times, our commitment to education is unwavering.

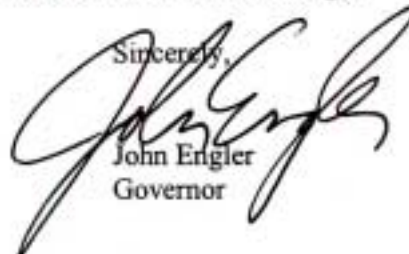
Safety and security have also been high on our agenda and the result has been steady and significant declines in the rate of violent crime. Now, as we must respond to new concerns regarding terrorism, this budget recommends a five-year, \$1 billion Airport Security and Protection (ASAP) plan. Quick action on ASAP will maximize available resources and allow key projects to begin this summer.

By making work and personal responsibility a priority, Michigan has succeeded in helping more than 300,000 families achieve independence from cash assistance. In this regard, flexibility from Washington has made a difference, and this budget leverages additional flexibility to provide health insurance and prescription coverage to more disabled individuals, families and senior citizens.

As always, the budget I present to you is balanced, prudent and protective of our state's hard-won "AAA" credit rating. I realize that the convergence of retirements forced by term limits, redistricting and recession make the politics of balancing the budget difficult and that there is a temptation to delay. But decisions that are difficult today will be even more difficult tomorrow. So I urge the Michigan Legislature to act quickly on these recommendations.

This Executive Budget is the last of 12 that I have had the privilege to recommend. History will tell whether we picked the right priorities and made the right decisions. I believe we have made the right choices and that future generations will benefit from a better Michigan.

Sincerely,


John Engler
Governor

A FOUNDATION FOR THE FUTURE

Fiscal Year 2003 Executive Budget

It has been well publicized that this may be the most difficult budget year in a decade. America finds itself in the midst of an economic downturn, predicted by analysts but exacerbated by the tragedies of September 11th. The last several months have forced the nation to face the unimaginable. We have witnessed events that have not only horrified us but inspired a sense of community that our nation has not experienced in generations. Beyond the human tragedy, the September 11th attacks and subsequent related events have inflicted economic pain that contrasts sharply with the preceding decade of prosperity and growth.

Michigan has not been immune to these recent events. The impact of the recession on our great state is being widely observed. As we look forward, we face many great challenges and uncertainties. But we also have many opportunities on the horizon. Our task now is to guide Michigan through this economic downturn — protecting the gains we have made and preparing a foundation for the future.

ECONOMY COOLS DOWN

The U.S. economic slowdown that began in March 2001 ended the longest recorded U.S. economic expansion of ten years. Automakers made the most aggressive production cuts in a decade and offered zero percent financing to boost car sales beginning in October 2001. Michigan's economy also slowed, causing employment to decline. The unemployment rate averaged 5.0 percent in 2001, up from 3.6 percent a year ago.

Changes in Michigan's baseline revenues reflect the national economic condition. A year ago, when the fiscal year 2002 Executive Budget was presented, the Governor warned "there is both hard data and a growing sentiment that suggests a slowing of economic growth at the national and local levels."

At that time, the Governor proposed a budget with less than one-half of one percent general fund growth. In May 2001, it became apparent that state revenues were declining and the budgets for fiscal

years 2001 and 2002 were adjusted downward to reflect the softening revenues. The terrible events of September 11th worsened an already fragile economy. By the end of fiscal year 2001, net general fund revenues had declined 8.1 percent from the prior year.

"Zero percent financing was, without a doubt, the most important stimulus package American families received. In an autumn of tragedy and grief, Michigan's companies helped 'Keep America Rolling'."

Governor John Engler, State of the State Address, January 23, 2002

Fiscal Year 2002

In October 2001, a special Consensus Revenue Estimating Conference was held at the request of the State Treasurer. At that conference, the Treasurer and the directors of the House and Senate fiscal agencies further reduced their revenue projections for fiscal year 2002, prompting the Administration and Legislature to adjust the 2002 budget accordingly. The Governor issued Executive Order 2001-9 to bring spending in balance with available revenues. The Legislature is to be commended for cooperating with the Administration to reach many difficult, yet necessary, fiscal decisions at that time.

Ultimately, Executive Order spending reductions of almost \$460 million were approved, and additional reductions of \$9.9 million were enacted by the Legislature. These Executive Order reductions were in addition to more than \$210 million in spending reductions contained within the original fiscal year 2002 budget bills. In total, we reduced general fund support to state agencies in fiscal year 2002 by over 7 percent compared to fiscal year 2001.

The final component of the fiscal year 2002 solution – the sale of state property in Northville – still awaits legislative action. The Governor urges prompt action on this bill in order to balance fiscal year 2002 and focus our collective efforts on passing the fiscal year 2003 budget.

Fiscal Year 2003 Outlook

In December 2001, economic indicators suggested the economy was turning the corner toward recovery. New claims for unemployment benefits had fallen sharply, employment declines slowed, and consumer and business confidence improved. These fundamentals indicate the underlying economy is sound and the long term outlook for our state is positive.

"The economy could see a healthy recovery by the second half of the year. Productivity remains high, fiscal and monetary policy is aggressive. As long as consumer spending stays healthy, a rebound should begin this quarter."

Diane Swonk, Chief Economist for Bank One Corporation, January 15, 2002

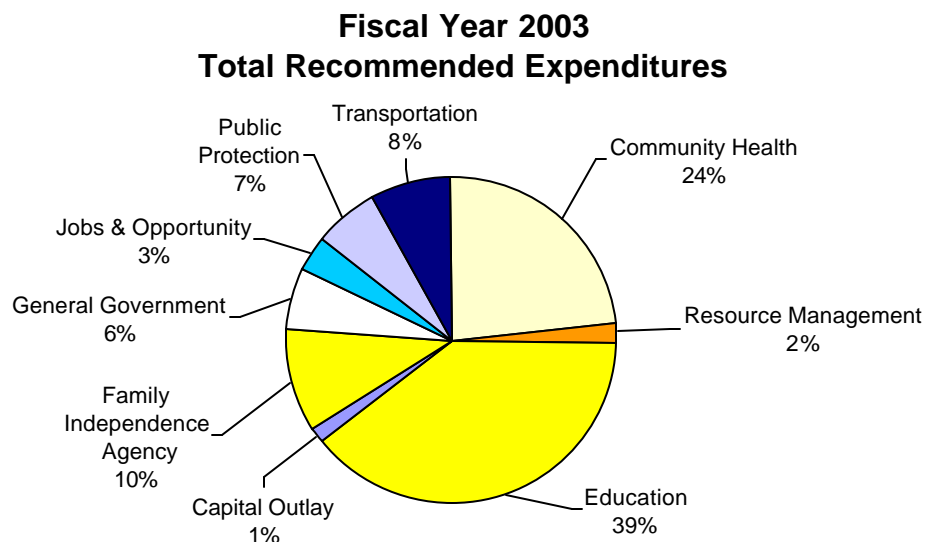
Despite early signs of an economic rebound, state revenue forecasts suggest that we not waiver from the prudent fiscal practices that gained Michigan its AAA bond rating. Nor should we waiver from those policies that spurred Michigan's economic growth during the 1990's: controlled spending, tax relief for the citizens of the state, and a maximum return on every tax dollar expended.

The Michigan Constitution requires the Governor to present a balanced budget to the Legislature. Proposed expenditures may not exceed available revenues. The Governor relies on the results of the Consensus Revenue Estimating Conference to set the revenues upon which the Executive Budget is based. In early January 2002, the conferees jointly determined revenue projections for fiscal year 2003. The budget presented today is based upon those revenue estimates.

HIGHLIGHTS OF THE EXECUTIVE BUDGET

The fiscal year 2003 Executive Budget reflects many difficult decisions necessary to ensure that the state lives within its means. This budget reduces spending in response to lower revenues, yet protects essential state services.

A key component of the 2003 budget is the Governor's unwavering commitment to our schools. Despite the budget shortfall, he is determined to protect the gains made in public education and honor his original commitment to boost per pupil spending to \$6,700 in 2003.



This budget also maintains a tremendous investment in Michigan's higher education system; improves health coverage for children, low-income families and disabled persons; expands drug benefits for seniors; protects critical safety-net programs for low-income residents of the state; and strengthens public safety activities.

Overall Budget

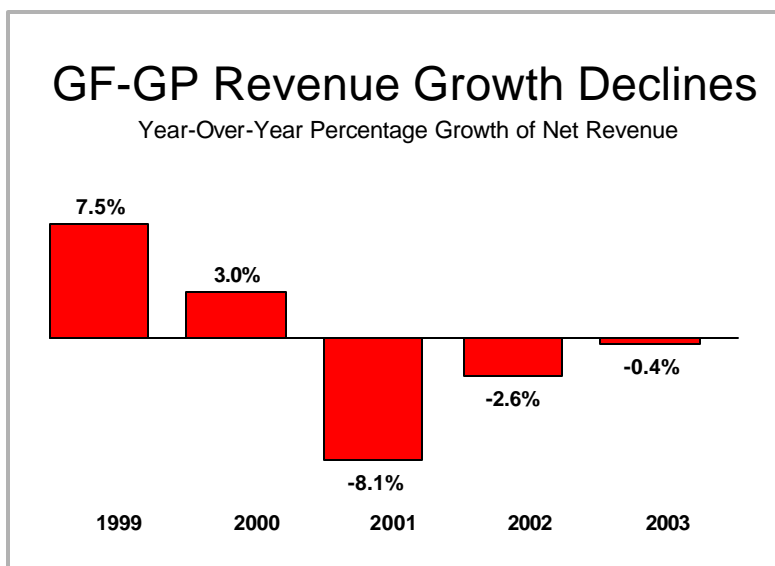
The Governor's proposed budget for fiscal year 2003 totals \$39.4 billion. This includes \$9.2 billion in general fund spending, \$11.2 billion from the School Aid Fund, \$1.5 billion in revenue sharing support for local governments, \$2.2 billion in state transportation spending, and \$11.1 billion in federal revenues.

The spending plan for 2003 continues the Executive Order reductions implemented last November with the exception of veterans service organizations and critical public transit and transportation economic development fund programs, which will be restored to their original fiscal year 2002 levels.

The fiscal year 2003 budget also recommends that fee increases included in Executive Order 2001-9, totaling over \$3.5 million, be permanently enacted into law. This includes a number of fee increases in the departments of State Police and Corrections, to support fingerprint and criminal records checks, parole and probation oversight fees, and security guard licensure fees.

General Fund Budget

The Consensus Revenue Conference estimates fiscal year 2003 general fund revenues at \$8.72 billion. This is a decline of 0.4 percent from the fiscal year 2002 revenues. In fact, general fund revenues for 2003 are below 1998 levels. When compared to the enacted fiscal year 2002 budget – including Executive Order 2001-9 reductions – the revenues for next year are \$540 million less than this year's budget! The pending 2002 supplemental for acknowledged Medicaid and public assistance caseload growth will boost the funding gap to \$580 million.



It is important to note that the pending supplemental recognizes a Medicaid caseload increase that is the result of a Fall 2001 consensus agreement with the legislative fiscal agencies. However, the Administration remains concerned that Medicaid needs are understated. As a result, the Administration will be carefully monitoring the Medicaid caseloads and expenditure patterns throughout the year.

Fiscal Year 2003 Funding Gap (GF/GP \$ in millions)	
FY 2003 Consensus Revenue Estimate	\$8,724.2
+ Diesel Equity and Simplification	<u>\$3.0</u>
Total Available FY 2003 Revenues	\$8,727.2
FY 2002 Enacted Appropriations	\$9,265.4
+ Medicaid & Welfare Caseload Increases	<u>\$41.8</u>
Anticipated FY 2002 Spending	\$9,307.2
Funding Gap	\$580.0
+ Unavoidable Spending Increases	<u>\$388.2</u>
Total FY 2003 Funding Gap	\$968.2

In addition to the base funding shortfall of \$580 million, fiscal year 2003 has known and unavoidable general fund spending pressures of over \$388 million. These spending pressures most significantly affect human service programs, including \$247 million for Medicaid costs and \$43 million for Family Independence Agency public assistance caseload growth. An additional \$43 million is required for non-discretionary economic increases, \$30 million for the Department of Corrections operational costs, \$16 million for State Building Authority rent, and \$10 million for other agency cost increases.

When these unavoidable spending pressures are combined with current year spending, the state faces a general fund gap of just under \$970 million. The fiscal year 2003 budget closes this funding gap with a variety of solutions including expenditure reductions, use of available state restricted revenues, and a withdrawal from the Budget Stabilization Fund. Many of these solutions are painful and they will not be easy. However, the fiscal year 2003 Executive Budget provides a reasonable, balanced response to the effects of the economic downturn while maintaining tax cuts we have collectively supported.

The solutions to the funding gap do not pause the personal income tax rate cut scheduled for next year, nor the Single Business Tax rate cut in January 2003. With disciplined spending decisions, we will be able to preserve the tax relief that is so vital to individual taxpayers and businesses in the state.

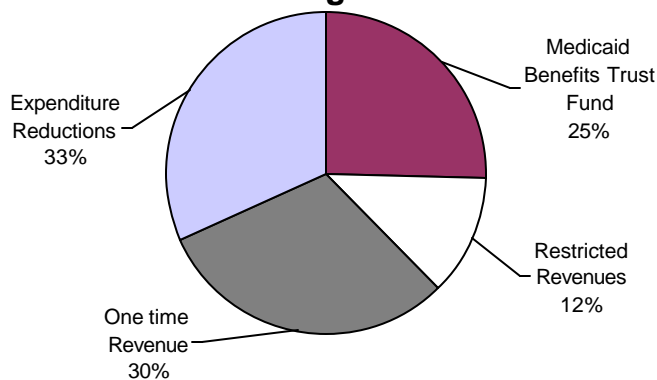
BALANCING THE GENERAL FUND BUDGET

The unpleasant reality is that, in fiscal year 2003, the general fund revenue available for spending is less than it was five years ago. It will not be enough to simply 'tighten the belt' once more. The solutions to this spending shortfall lie in difficult decisions, and major cost-cutting actions. Now is the time to influence the future, recognizing that there is a clear difference between those programs we would like to fund, and those essential programs we must fund.

The Governor's budget closes the general fund shortfall with a mix of solutions. It covers the \$247 million Medicaid spending increase with a withdrawal from the Medicaid Benefits Trust Fund of an equal amount. The Medicaid Benefits Trust Fund was created from special financing revenues that have been earned in this, and previous, fiscal years. In Michigan, special financing has always been dedicated to support the Medicaid program.

While the Trust Fund was originally intended to cover changes in the level of federal financial support for the Medicaid program, spending it for unavoidable caseload growth during this economic downturn is an appropriate use of the money. Even after this withdrawal, the Fund will have a balance of \$280 million at the end of next year.

**Fiscal Year 2003
GF/GP Budget Solutions**



Appropriations reductions of nearly \$310 million account for another 33 percent of the fiscal year 2003 budget solution. A freeze on revenue sharing to local units of government will save \$112.4 million. By taking advantage of the state's strong

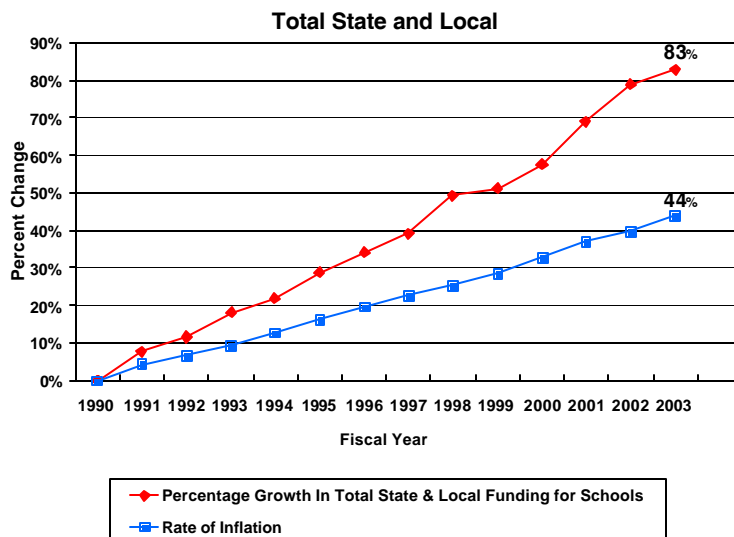
credit rating and current low interest rates, debt restructuring will save \$41 million. Collectively, state agencies will reduce staff in order to fund employee-related economic adjustments. Additional agency cuts of over \$60 million will be achieved by reducing capital outlay spending, pausing economic development job training grants during the summer months, consolidating long-term care spending to ensure that seniors receive services in the least restrictive setting, streamlining substance abuse administration and other smaller savings throughout state government. In addition, \$50 million in savings from the special initiative announced this week will be allocated to individual agency budgets as more information becomes available.

In the current year, almost \$160 million of tobacco settlement revenues are being used to help balance the general fund. For fiscal year 2003, the Governor reduces the reliance on this fund source; the Merit Award Trust Fund withdrawal is reduced to \$100 million and the Governor recommends no withdrawal from the Tobacco Settlement Trust Fund, as it is fully committed for valued health programs.

The Governor also recommends the use of \$27.6 million in available state restricted and federal funds to replace general fund spending. In addition, the Governor recommends that the available fund balance in the Michigan Employment Security Act Contingent Fund be used to maintain the general fund contribution to the School Aid Fund at the current year level of just under \$200 million.

The Governor is also recommending a withdrawal of \$207 million from the Budget Stabilization Fund. The Governor proposes to transfer any unreserved general fund balance to the Budget Stabilization Fund at the end of fiscal years 2002 and 2003 to begin to re-build the Fund for future economic downturns. These actions leave the Fund balance very close to \$250 million at the end of 2003.

Funding for Schools Outpaces Inflation



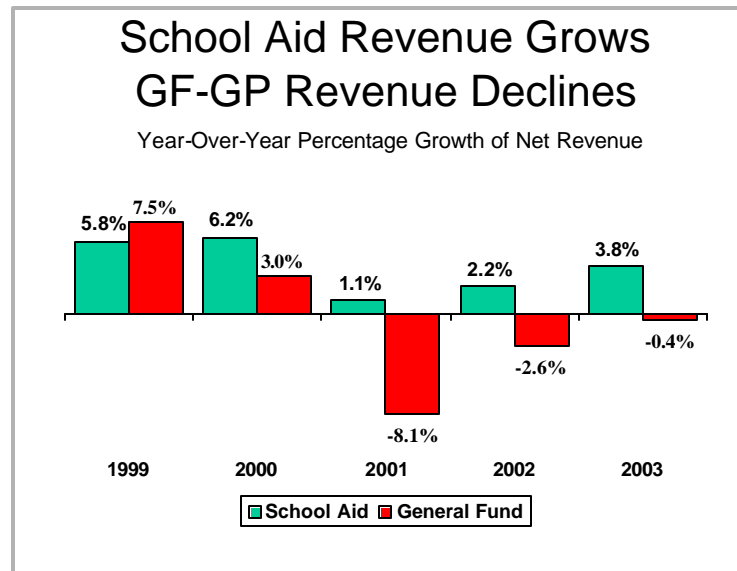
EDUCATION REMAINS TOP PRIORITY

Education has been and continues to be critically important to the state. More than \$15.1 billion, or 39 percent, of the state's overall budget is devoted to education. This includes funding for the K-12 system, universities, community colleges and student financial aid.

Funding for K-12 public schools continues to be Governor Engler's top priority. School Aid Fund revenues, like general fund revenues, have been affected by the recent economic downturn.

However, unlike general fund revenues which have declined, the School Aid Fund has seen a slowing in the rate of year-to-year growth. In the late 1990's, School Aid Fund revenues grew around 6 percent per year. In 2002, that rate of growth slowed to approximately 2 percent. The January Consensus Revenue Conference projected that, as the economy rebounds, School Aid revenues will increase by 3.8 percent in fiscal year 2003.

Those revenue projections are the basis for the Governor's State School Aid budget.



In fiscal year 2003, for the sixth year in a row, the state will spend more state dollars on K-12 education than it spends for the entire general fund budget. State spending in the fiscal year 2003 School Aid budget is almost \$11.5 billion, including \$198.4 million general fund, an amazing commitment given the state's current fiscal situation. In addition, over \$1.3 billion of federal funds are appropriated, for total appropriations of nearly \$12.8 billion. When local school operating property taxes are combined with state appropriations, support for schools jumps to nearly \$14.5 billion in fiscal year 2003.

Although faced with declining state revenues, the Governor is committed to boosting the minimum foundation allowance to \$6,700 per pupil in fiscal year 2003. This \$200 or 3.1 percent per pupil funding increase will cost \$337 million. To pay for this important enhancement, the Governor proposes modifying the state education tax collection structure in fiscal year 2003. Currently, the six mill state education property tax is collected in July and December each year. The Governor recommends that, beginning in July 2003, all of the state education tax be collected in the summer.

An earlier due date may cause financial hardship for some taxpayers. Therefore, the Governor proposes a one-time tax cut of \$266 million for all taxpayers in 2003, by reducing the millage rate from the current six mills to five mills for one year only. The estimated additional fiscal year 2003 revenue generated by changing the tax collection schedule is just under \$500 million, providing enough revenue to support an increase in the foundation allowance to \$6,700 per pupil.

All federal grant programs that support school district operations have been transferred to the State School Aid budget to allow greater coordination with state school aid dollars. Federal implementation of the “No Child Left Behind Act of 2001” results in significant new resources for school districts. Federal formula-allocated funds received by Michigan from the U.S. Department of Education total more than \$1.3 billion, an increase of over \$172 million from the prior federal fiscal year.

HIGHER EDUCATION

Higher education is clearly one of the Governor’s top priorities. For fiscal year 2003, the Governor proposes maintaining funding for colleges and universities at current year funding levels in order to protect students and their families from the effects of sky-rocketing tuition increases. This significant investment of resources should ensure that our higher education institutions remain affordable.

“Education, more than any other single factor, will assure Michigan’s quality of life and economic future.”

Governor John Engler, State of the State Address, January 23, 2002

In recognition of the impact of the economy on state revenues and on the pocketbooks of students, the university presidents have agreed to constrain tuition increases for next year to a maximum 8.5 percent, or \$425. A freeze on state appropriations, while difficult, is a fair response to the decline in state revenues. Our higher education

leaders are to be applauded for their commitment to control tuition costs, and the Governor urges the Legislature to swiftly enact the higher education budgets to bring certainty to college tuition costs for next year.

SUPPORT FOR LOW INCOME FAMILIES & CHILDREN

Last year, when dealing with budget shortfalls, the Governor made it clear that he considers health and safety-net services a priority. This budget reasserts the Governor’s commitment to Michigan’s most vulnerable residents. Despite the state of the economy, and despite budget shortfalls, critical services for low-income individuals and families will remain in place.

As the lagging effects of the recession continue, more and more Michigan residents may turn to the state for assistance. Now, during these challenging

times, this budget devotes an increasing amount of federal and state funds to public assistance programs to support the growing number of families who need temporary income.

The Executive Budget recommends an additional \$60.2 million in federal funding to cover cash assistance for 92,100 families, a 20 percent increase over the current welfare caseload of 75,800. Although this increase appears to be sizeable, the number of families receiving cash assistance will remain below caseload levels experienced in the early 1990's. These relatively modest caseload increases demonstrate the success of welfare reforms made during the Engler Administration, which help families move from welfare to work.

"Why would you want to keep someone on welfare instead of helping them get a job?"

Governor John Engler, 1991

In addition, 70,000 low-income families will continue to rely on the state for day care assistance in fiscal year 2003. To cover these costs, the Governor includes \$23 million in new state funds to match available federal day care revenues.

A \$7.7 million increase for the State Emergency Relief program will provide additional funding for energy-related home repairs, rent assistance, and other forms of emergency assistance.

Michigan is expecting to receive a substantial increase in its federal Low Income Home Energy Assistance award. The additional \$18.9 million that is recommended in fiscal year 2003 represents an increase of nearly 30 percent from the current year. These funds will support the home heating credit, energy-related crisis intervention payments, and weatherization activities that make homes more energy efficient.

HEALTH CARE & MEDICAID

Medicaid, which provides comprehensive physical and mental health coverage for the state's most vulnerable residents, is currently one of the state's largest expenditures — and the caseloads for these services are expected to rise. The Executive Budget is built on the assumption that the number of Medicaid recipients will continue to grow steadily through the third quarter of fiscal year 2002, stabilize as the economy recovers and then begin to slowly decline as the economy rebounds. Medicaid spending on physical health services for fiscal year 2003 totals \$4.3 billion, an increase of 5 percent over current year levels.

The Governor's spending plan also includes an additional \$112.9 million to finance a new initiative, the MIFamily Plan, which will expand Medicaid benefits and improve health care access for more than 200,000 Michigan residents.

The MIFamily Plan will utilize the flexibility given to states by the Bush Administration's Health Insurance Flexibility and Accountability federal waiver process. This flexibility will allow the state to maximize unspent federal dollars from the MICHild program and expand health care coverage to more individuals. Michigan will also seek to increase federal funding as a match for state mental health funds, thereby increasing overall mental health appropriations by \$50 million.

"When Washington gives the states the flexibility to design programs that meet our needs, we stretch the dollars and help more people."

Governor John Engler, announcing the MIFamily health plan, January 23, 2002

In his State of the Union address, President Bush renewed his commitment to provide prescription drug coverage to seniors. Two of his proposals, Medicare Low-Income Drug Assistance and the Medicaid Pharmacy Plus Waiver, are built into the fiscal year 2003 Executive Budget. These initiatives will almost triple the funding for Michigan's Elder Prescription Insurance Coverage (EPIC) program from \$50 million this year to \$145 million in fiscal year 2003. It is anticipated this enhanced funding will allow EPIC to provide prescription drug benefits to an additional 50,000 senior citizens with household incomes at or below 200 percent of poverty.

ASSURING PUBLIC SAFETY

The events of September 11th have created needs for new emergency response capabilities and protective measures to ensure the safety of Michigan residents. In the aftermath of these tragic events, the Governor acted quickly to ensure Michigan's vital infrastructure was secure, our drinking water safe, and our health officials prepared. In his State of the State address, the Governor recently reconstituted the existing anti-terrorism task force as the Michigan Homeland Security Task Force headed by the Michigan State Police.

"Michigan has always met its challenges -- our state has always been a leader -- when confronting crises at home or abroad."

Governor John Engler, State of the State Address, January 23, 2002

The fiscal year 2003 Executive Budget marshals state resources to meet potential threats. The Governor's recommendation includes an innovative Airport Security and Protection (ASAP) plan that will invest over \$1 billion in airport security and capital improvements over the next five years. As the past few months have painfully demonstrated, airport security

and safety are more important than ever. The Airport Security and Protection (ASAP) plan will help ensure that new security measures, including controlled airport access, passenger and baggage screening, terminal modifications, and

airport employee screening are put in place as quickly as possible. This proposal will redirect \$6 million annually from the airport parking tax and combine it with existing state aeronautics fund revenues, bond proceeds, federal funds, and local revenues to pay for needed improvements to the statewide aviation system. The Governor urges adoption of this package expeditiously, to avoid delaying these key projects, several of which could begin immediately. Supplemental appropriations of \$55 million will allow many of these projects to start during the summer of 2002.

A few days ago, the Bush Administration announced that Michigan will be receiving a one-time grant of \$30 million to build a stronger and more responsive public health infrastructure. This funding will be used to improve labs, upgrade infectious disease surveillance, and improve communications between local, state and federal officials. The new federal funds will also support the education of medical and emergency workers to assist in the early recognition of infectious disease outbreaks, including a bioterrorist attack, involving the release of anthrax or smallpox germs. The Governor advocates quick action to strengthen our state's ability to detect, prevent and respond to possible acts of terrorism. The fiscal year 2003 budget includes \$9.5 million for this program and the Governor will be recommending supplemental appropriations in the current year as funds become available.

The Governor proposes supplemental appropriations of \$15.5 million for the construction of two new armories to serve the needs of the Michigan National Guard. The Jackson Armory was built in 1850, and is the oldest armory in the country. The Calumet Armory was constructed in 1915 and currently operates as a joint-use facility. The existing facilities are outdated and cannot meet the Guard's current needs. The new facilities will provide adequate space for training, allow the posts to operate as command control centers in the event of an emergency, and meet federal security requirements. Most importantly, the new facilities will be able to handle the needs of a more sophisticated, technology-oriented military.

"In Michigan some special citizen-soldiers are keeping us safe at our border, in our airports, and on duty overseas. They make us proud – they are the Michigan National Guard."

Governor John Engler, State of the State Address, January 23, 2002

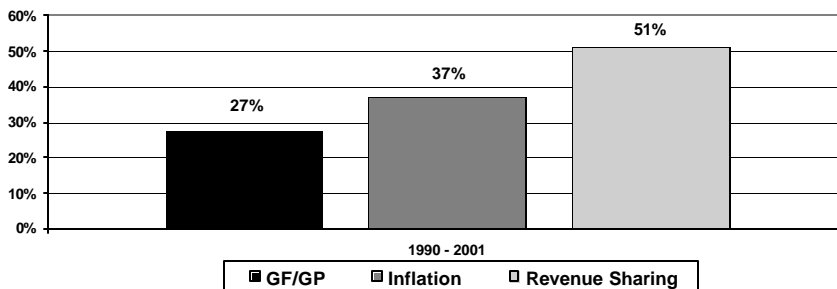
To ensure quality care for our veterans receiving services at the Grand Rapids Veterans' Home, the Governor recommends augmenting staffing and services with funds made available through certification of the home as a Medicaid-eligible long-term care facility. The fiscal year 2003 recommendation provides additional spending authorization of \$3.6 million to support the effort to obtain and maintain Medicaid certification. A fiscal year 2002 supplemental of \$300,000 is also recommended to cover partial year costs associated with acquiring Medicaid certification.

REVENUE SHARING

Over 1,800 units of local government receive a portion of sales tax revenue through the state revenue sharing program. The Governor's budget for fiscal year 2003 includes \$1.53 billion for revenue sharing payments to local communities. Each county, city, village and township retains the discretion to determine which local services will be financed through state revenue sharing funds. In 2003, total state spending as payments to local units of government will exceed \$16.1 billion; state revenue sharing payments represent 9.5 percent of this total.

The source of revenue for the state revenue sharing program - sales tax revenue - has reflected both the booming economy of the 1990's and the recent economic downturn. Revenue sharing payments to local communities increased from \$1.03 billion to \$1.56 billion from fiscal year 1990 through 2001 – an increase of over 51 percent, compared to the 37 percent increase in inflation during that

**Revenue Sharing,
Inflation and General Fund Revenues**



period. However, in the current year, revenue sharing payments were reduced to \$1.53 billion, a 1.7 percent reduction from the prior year. The Governor's budget for fiscal year 2003 recommends that aggregate revenue sharing payments remain unchanged at \$1.53 billion.

With continuation funding of \$1.53 billion and a larger allocation required for the constitutionally-guaranteed portion of revenue sharing, certain communities are expected to receive reduced revenue sharing in fiscal year 2003. In order to minimize the financial difficulties that this might pose for those communities, the Governor's budget establishes one-time grants to local governmental units with \$10 million in general fund resources.

TRANSPORTATION

To accelerate the improvement of our state roads and bridges, in particular the commercial routes, and to ensure that the costs of the preservation and critical maintenance are shared fairly by all motorists, the fiscal year 2003 budget includes a comprehensive package of diesel tax and collection simplification reforms. Michigan's current diesel taxation system is one of the most complicated and burdensome in the nation. The proposed reforms simplify and modernize the collection process for diesel fuel users and distributors, and accelerate the

investment on Michigan's most heavily traveled roads and bridges. The package addresses fairness for motorists by rectifying the inequity between motor fuel tax rates — standardizing all motor fuel taxes, including gasoline, diesel, and liquefied petroleum gas, to an effective tax rate of 19 cents per gallon. Revenues from a four cent diesel increase will be distributed as follows: 85 percent for use on National Highway System routes, and 15 percent to the Critical Bridge Fund for use on local "on-system" bridges. The reform package provides a long-term revenue stream, generating additional support of \$46.3 million in fiscal year 2003, \$66 million in 2004, and over \$90 million in 2005. Dedicating the revenues for these purposes ensures that the diesel fuel tax increase is used on the commercial system which is critical to the state's trucking, manufacturing, and commercial interests.

"This is a matter of simple equity, of truck owners paying at least as much as other motorists for the privilege of using Michigan roads."

The Grand Rapids Press, May 15, 2001

CONCLUSION

The budget that is presented today leaves a balance of approximately \$250 million in the Budget Stabilization Fund. It is the Governor's recommendation that any unreserved fund balance at the end of fiscal years 2002 and 2003 be deposited into the Budget Stabilization Fund. He also recommends that, if revenues improve from current estimates, a portion of the increase be earmarked for deposit into the Fund. Setting aside a reserve is more than just sound economic policy; it's an obligation to Michigan's citizens. As the current economic downturn has demonstrated, adequate reserves in the Budget Stabilization Fund can help protect critical programs when the economy weakens. We need to rebuild the Fund as quickly as possible.

The creation of this budget has not been easy. There will be vigorous debate on some of the recommendations. Together we face the challenge of enacting a balanced budget. The politics of balancing the budget are difficult, and there is a temptation to delay. But decisions that are difficult today will be even more difficult tomorrow. As term limits bring many to bid farewell, let us have the courage to address the issues head-on, and the conviction to look beyond election-year politics. To lay a firm fiscal foundation in these times of economic turmoil is not only the best option, it's also the only option.

Recommendation Summary

General Fund/General Purpose
Net of Program Transfers

Department	FY 2002* Appropriations	FY 2003 Executive Recommendation	Change FY 2002 to FY 2003	
			Amount	Percent
Agriculture	\$41,396,000	\$40,801,000	(\$595,000)	-1.44%
Attorney General	35,475,300	35,200,700	(274,600)	-0.77%
Capital Outlay	302,470,200	304,482,900	2,012,700	0.67%
Career Development	34,602,700	34,679,800	77,100	0.22%
Civil Rights	14,333,000	14,414,900	81,900	0.57%
Civil Service	10,656,400	10,649,000	(7,400)	-0.07%
Community Health	2,582,477,800	2,563,061,200	(19,416,600)	-0.75%
Consumer and Industry Services	37,896,700	37,987,900	91,200	0.24%
Corrections	1,599,453,900	1,627,858,900	28,405,000	1.78%
Education	32,400,800	30,109,700	(2,291,100)	-7.07%
Environmental Quality	83,613,700	74,660,100	(8,953,600)	-10.71%
Executive Office	5,480,900	5,486,400	5,500	0.10%
Family Independence Agency	1,175,780,800	1,208,450,700	32,669,900	2.78%
Higher Education:				
Community Colleges	319,596,319	319,732,319	136,000	0.04%
Universities/Grants & Fin. Aid	1,812,668,516	1,811,997,316	(671,200)	-0.04%
History, Arts & Libraries	64,609,100	62,675,300	(1,933,800)	-2.99%
Information Technology	0	0	0	0.00%
Judiciary	175,223,900	178,818,100	3,594,200	2.05%
Legislature	122,359,200	122,842,800	483,600	0.40%
Management and Budget	43,868,200	43,372,700	(495,500)	-1.13%
Michigan Strategic Fund	60,156,200	46,080,200	(14,076,000)	-23.40%
Military and Veterans Affairs	40,039,500	36,455,400	(3,584,100)	-8.95%
Natural Resources	45,313,100	45,549,100	236,000	0.52%
School Aid	198,413,500	198,413,500	0	0.00%
State	17,718,700	17,741,300	22,600	0.13%
State Police	292,620,000	289,946,800	(2,673,200)	-0.91%
Transportation	0	0	0	0.00%
Treasury	53,491,000	64,293,800	10,802,800	20.20%
Debt Service	105,295,000	59,586,400	(45,708,600)	-43.41%
Various State Agency Reductions		(50,000,000)		
TOTAL	\$9,307,410,435	\$9,235,348,235	(\$72,062,200)	-0.77%

*FY 2002 includes \$41,820,000 GF/GP as recommended in supplemental dated November 6, 2001.

Recommendation Summary

Federal Funds
Net of Program Transfers

Department	FY 2002* Appropriations	FY 2003 Executive Recommendation	Change FY 2002 to FY 2003	
			Amount	Percent
Agriculture	\$5,880,000	\$6,639,500	\$759,500	12.92%
Attorney General	7,624,800	7,672,700	47,900	0.63%
Capital Outlay	104,382,000	165,042,000	60,660,000	58.11%
Career Development	463,699,900	472,569,200	8,869,300	1.91%
Civil Rights	934,000	934,000	0	0.00%
Civil Service	4,779,100	4,779,100	0	0.00%
Community Health	4,516,453,800	4,801,713,100	285,259,300	6.32%
Consumer and Industry Services	234,440,500	242,311,500	7,871,000	3.36%
Corrections	28,032,400	26,403,400	(1,629,000)	-5.81%
Education	942,579,100	39,863,400	(902,715,700)	-95.77%
Environmental Quality	131,277,500	131,531,600	254,100	0.19%
Executive Office	0	0	0	0.00%
Family Independence Agency	2,499,689,850	2,604,621,650	104,931,800	4.20%
Higher Education:				
Community Colleges	0	0	0	0.00%
Universities/Grants & Fin. Aid	4,900,000	5,500,000	600,000	12.24%
History, Arts & Libraries	7,111,800	7,111,300	(500)	-0.01%
Information Technology	0	0	0	0.00%
Judiciary	3,363,200	3,864,500	501,300	14.91%
Legislature	0	0	0	0.00%
Management and Budget	380,300	300,100	(80,200)	-21.09%
Michigan Strategic Fund	62,934,400	62,953,300	18,900	0.03%
Military and Veterans Affairs	36,386,100	47,214,500	10,828,400	29.76%
Natural Resources	28,461,700	28,727,600	265,900	0.93%
School Aid	203,000,000	1,348,305,800	1,145,305,800	564.19%
State	1,303,600	1,319,500	15,900	1.22%
State Police	43,211,000	45,570,500	2,359,500	5.46%
Transportation	960,483,900	987,176,100	26,692,200	2.78%
Treasury	33,490,000	44,296,100	10,806,100	32.27%
Debt Service	0	0	0	0.00%
TOTAL	\$10,324,798,950	\$11,086,420,450	\$761,621,500	7.38%

*FY 2002 includes \$88,180,000 federal as recommended in supplemental dated November 6, 2001.

Recommendation Summary

Other State, Private and Local Funds
Net of Program Transfers

Department	FY 2002* Appropriations	FY 2003 Executive Recommendation	Change FY 2002 to FY 2003	
			Amount	Percent
Agriculture	\$39,187,000	\$39,060,000	(\$127,000)	-0.32%
Attorney General	10,043,500	10,047,600	4,100	0.04%
Capital Outlay	72,309,000	89,245,000	16,936,000	23.42%
Career Development	26,819,000	27,069,700	250,700	0.93%
Civil Rights	0	0	0	0.00%
Civil Service	11,352,900	11,489,200	136,300	1.20%
Community Health	1,568,739,500	1,721,716,700	152,977,200	9.75%
Consumer and Industry Services	285,031,400	289,727,600	4,696,200	1.65%
Corrections	53,302,400	55,881,700	2,579,300	4.84%
Education	19,607,000	19,404,900	(202,100)	-1.03%
Environmental Quality	240,328,100	184,591,000	(55,737,100)	-23.19%
Executive Office	0	0	0	0.00%
Family Independence Agency	155,293,950	142,354,650	(12,939,300)	-8.33%
Higher Education:				
Community Colleges	2,000,000	2,000,000	0	0.00%
Universities/Grants & Fin. Aid	108,273,850	121,573,850	13,300,000	12.28%
History, Arts & Libraries	2,824,800	2,478,300	(346,500)	-12.27%
Information Technology		0	0	0.00%
Judiciary	60,044,300	61,071,800	1,027,500	1.71%
Legislature	1,878,600	1,875,300	(3,300)	-0.18%
Management and Budget	42,923,200	35,355,300	(7,567,900)	-17.63%
Michigan Strategic Fund	45,900,000	45,903,100	3,100	0.01%
Military and Veterans Affairs	23,732,400	23,967,600	235,200	0.99%
Natural Resources	211,509,100	176,703,800	(34,805,300)	-16.46%
School Aid	11,049,699,900	11,248,614,100	198,914,200	1.80%
State	64,452,000	64,274,300	(177,700)	-0.28%
State Police	56,025,300	64,176,600	8,151,300	14.55%
Transportation	2,104,129,000	2,179,195,000	75,066,000	3.57%
Treasury	1,789,764,200	1,780,444,700	(9,319,500)	-0.52%
Debt Service	700,000	0	(700,000)	-100.00%
TOTAL	\$18,045,870,400	\$18,398,221,800	\$352,351,400	1.95%

*FY 2002 includes \$137,551,900 local and other state restricted as recommended in supplemental dated November 6, 2001.

Recommendation Summary

All Funds
Net of Program Transfers

Department	FY 2002* Appropriations	FY 2003** Executive Recommendation	Change FY 2002 to FY 2003	
			Amount	Percent
Agriculture	\$98,571,100	\$97,454,300	(\$1,116,800)	-1.13%
Attorney General	62,900,500	62,838,900	(61,600)	-0.10%
Capital Outlay	486,161,200	562,769,900	76,608,700	15.76%
Career Development	525,121,600	534,318,700	9,197,100	1.75%
Civil Rights	15,267,000	15,348,900	81,900	0.54%
Civil Service	30,088,300	32,217,300	2,129,000	7.08%
Community Health	8,742,178,500	9,155,663,900	413,485,400	4.73%
Consumer and Industry Services	557,480,400	570,138,100	12,657,700	2.27%
Corrections	1,686,754,400	1,713,462,500	26,708,100	1.58%
Education	995,104,900	89,896,000	(905,208,900)	-90.97%
Environmental Quality	473,028,300	404,825,600	(68,202,700)	-14.42%
Executive Office	5,480,900	5,486,400	5,500	0.10%
Family Independence Agency	3,831,729,900	3,956,405,800	124,675,900	3.25%
Higher Education:				
Community Colleges	321,596,319	321,732,319	136,000	0.04%
Universities/Grants & Fin. Aid	1,925,842,366	1,939,071,166	13,228,800	0.69%
History, Arts & Libraries	74,545,700	72,264,900	(2,280,800)	-3.06%
Information Technology		333,453,600	333,453,600	100.00%
Judiciary	241,449,900	246,587,900	5,138,000	2.13%
Legislature	125,850,000	126,345,700	495,700	0.39%
Management and Budget	172,685,300	188,634,700	15,949,400	9.24%
Michigan Strategic Fund	169,090,600	155,037,500	(14,053,100)	-8.31%
Military and Veterans Affairs	100,268,000	107,837,500	7,569,500	7.55%
Natural Resources	288,700,800	254,418,400	(34,282,400)	-11.87%
School Aid	11,451,113,400	12,795,333,400	1,344,220,000	11.74%
State	139,288,400	179,828,100	40,539,700	29.10%
State Police	411,783,800	416,444,600	4,660,800	1.13%
Transportation	3,076,072,400	3,166,371,100	90,298,700	2.94%
Treasury	1,885,982,200	1,908,479,900	22,497,700	1.19%
Debt Service	105,995,000	59,586,400	(46,408,600)	-43.78%
Various State Agency Reductions		(50,000,000)		
TOTAL	\$38,000,131,185	\$39,422,253,485	\$1,422,122,300	3.74%

*FY 2002 Includes \$267,551,900 gross as recommended in supplemental dated November 6, 2001.

FY 2002 All Funds includes Interdepartmental Grants and Intradepartmental Transfers of \$322,051,500.

**FY 2003 All Funds includes Interdepartmental Grants and Intradepartmental Transfers of \$702,263,000.

Fiscal Year 2003

Executive Budget Recommendation

(Amounts in Thousands)

Department	FY2002 Current Law		Recommended Supplemental of November 6, 2001		FY2002 Revised Current Law + Supplemental		FY2003 Executive Budget Recommendation	
	Gross	GF/GP	Gross	GF/GP	Gross	GF/GP	Gross	GF/GP
Agriculture	98,571.1	41,396.0			98,571.1	41,396.0	97,454.3	40,801.0
Attorney General	62,900.5	35,475.3			62,900.5	35,475.3	62,838.9	35,200.7
Capital Outlay	486,161.2	302,470.2			486,161.2	302,470.2	562,769.9	304,482.9
Career Development	525,121.6	34,602.7			525,121.6	34,602.7	534,318.7	34,679.8
Civil Rights	15,267.0	14,333.0			15,267.0	14,333.0	15,348.9	14,414.9
Civil Service	30,088.3	10,656.4			30,088.3	10,656.4	32,217.3	10,649.0
Community Health	8,525,720.0	2,560,657.8	216,458.5	21,820.0	8,742,178.5	2,582,477.8	9,155,663.9	2,563,061.2
Consumer and Industry Services	557,480.4	37,896.7			557,480.4	37,896.7	570,138.1	37,987.9
Corrections	1,682,254.4	1,599,453.9	4,500.0	0.0	1,686,754.4	1,599,453.9	1,713,462.5	1,627,858.9
Education	995,104.9	32,400.8			995,104.9	32,400.8	89,896.0	30,109.7
Environmental Quality	458,028.3	83,613.7	15,000.0	0.0	473,028.3	83,613.7	404,825.6	74,660.1
Executive Office	5,480.9	5,480.9			5,480.9	5,480.9	5,486.4	5,486.4
Family Independence Agency	3,805,679.4	1,155,780.8	26,050.5	20,000.0	3,831,729.9	1,175,780.8	3,956,405.8	1,208,450.7
Higher Education:					0.0	0.0		
Community Colleges	321,596.3	319,596.3			321,596.3	319,596.3	321,732.3	319,732.3
Universities/Grants & Fin. Aid	1,925,842.4	1,812,668.5			1,925,842.4	1,812,668.5	1,939,071.2	1,811,997.3
History, Arts, and Libraries	74,545.7	64,609.1			74,545.7	64,609.1	72,264.9	62,675.3
Information Technology	0.0	0.0			0.0	0.0	333,453.6	0.0
Judiciary	241,449.9	175,223.9			241,449.9	175,223.9	246,587.9	178,818.1
Legislature	125,850.0	122,359.2			125,850.0	122,359.2	126,345.7	122,842.8
Management and Budget	172,685.3	43,868.2			172,685.3	43,868.2	188,634.7	43,372.7
Michigan Strategic Fund	169,090.6	60,156.2			169,090.6	60,156.2	155,037.5	46,080.2
Military and Veterans Affairs	100,268.0	40,039.5			100,268.0	40,039.5	107,837.5	36,455.4
Natural Resources	287,657.9	45,313.1	1,042.9	0.0	288,700.8	45,313.1	254,418.4	45,549.1
School Aid	11,451,113.4	198,413.5			11,451,113.4	198,413.5	12,795,333.4	198,413.5
State	139,288.4	17,718.7			139,288.4	17,718.7	179,828.1	17,741.3
State Police	407,283.8	292,620.0	4,500.0	0.0	411,783.8	292,620.0	416,444.6	289,946.8
Transportation	3,076,072.4	0.0			3,076,072.4	0.0	3,166,371.1	0.0
Treasury	1,885,982.2	53,491.0			1,885,982.2	53,491.0	1,908,479.9	64,293.8
Debt Service	105,995.0	105,295.0			105,995.0	105,295.0	59,586.4	59,586.4
Various State Agency Reductions							(50,000.0)	(50,000.0)
TOTAL	37,732,579.3	9,265,590.4	267,551.9	41,820.0	38,000,131.2	9,307,410.4	39,422,253.5	9,235,348.2

State Spending from State Sources and Payments to Local Units of Government

	<u>State Spending From State Sources</u>	<u>Payments to Local Units of Government</u>
Agriculture	\$78,733,400	\$3,854,400
Attorney General	44,065,300	0
Capital Outlay	350,727,900	17,425,000
Career Development	44,341,300	0
Civil Rights	14,414,900	0
Civil Service	20,288,200	0
Community Health	3,156,389,400	1,001,418,200
Consumer and Industry Services	326,975,500	19,921,000
Corrections	1,683,349,500	78,221,300
Education	44,069,000	16,436,800
Environmental Quality	258,815,400	15,557,500
Executive Office	5,486,400	0
Family Independence Agency	1,273,839,500	207,056,200
Higher Education:		
Community Colleges	321,732,319	319,732,319
Universities/Financial Aid	1,933,571,166	4,029,060
History, Arts and Libraries		
Information Technology	0	0
Judiciary	236,105,600	113,195,500
Legislature	124,318,100	0
Management and Budget	78,728,000	0
Michigan Strategic Fund	91,130,200	9,009,400
Military and Veterans Affairs	59,893,000	120,000
Natural Resources	220,481,500	22,786,500
School Aid	11,446,327,600	11,389,641,800
State	82,015,500	69,800
State Police	350,209,700	19,968,100
Transportation	2,173,395,000	1,185,991,600
Treasury	<u>1,903,417,100</u>	<u>1,636,780,100</u>
Total	<u><u>\$26,322,820,485</u></u>	<u><u>\$16,061,214,579</u></u>
Percentage of State Spending from State Sources as Payments to Local Units of Government		<u>61.02%</u>

**FISCAL YEAR 2002
RECOMMENDED SUPPLEMENTAL APPROPRIATIONS**

	<u>All Funds</u>	<u>GF/GP</u>	Submission <u>Date</u>
Capital Outlay	(9,217,300)	(9,217,300)	01-28-2002
Capital Outlay	88,500,000	0	02-07-2002
Department of Community Health	216,458,500	21,820,000	11-06-2001
Department of Community Health	4,214,000	0	01-28-2002
Department of Corrections	4,500,000	0	11-06-2001
Department of Education	365,100	365,100	01-28-2002
Department of Environmental Quality	15,000,000	0	11-06-2001
Family Independence Agency	26,050,000	20,000,000	11-06-2001
Department of Military and Veterans Affairs	300,000	300,000	02-07-2002
Department of Natural Resources	1,042,900	0	11-06-2001
Department of State	80,000	80,000	01-28-2002
Department of State Police	4,500,000	0	11-06-2001
Department of Transportation	31,569,600	0	02-07-2002
Department of Treasury - Debt Service	(9,000,000)	(9,000,000)	01-28-2002
Total Recommended Supplementals	\$374,362,800	\$24,347,800	

State School Aid

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$749,134.1			\$385,613.5	\$198,413.5	\$198,413.5
All Funds	\$2,992,824.9			\$10,892,285.0	\$11,451,113.4	\$12,795,333.4
		% Change - GF/GP			-48.5%	0.0%
		% Change - All Funds			5.1%	11.7%

KEY ISSUES	GF/GP	All Funds
Total Enacted FY2003 Budget (P.A. 121 of 2001)	\$40,762.8	\$8,128,366.4
Net Increases - Proposal A 1994-95 Obligation Payment, Headlee Special Education Obligation Payment, and Discretionary Payment, based on a \$6,500 basic foundation allowance and changes to pupil counts, local revenue estimates, and estimated special education costs	\$84,054.7	\$2,514,740.0
Increase Discretionary Payment and Special Education to Provide \$6,700 Basic Foundation	\$0.0	\$336,700.0
Increase School Lunch Mandated Payment	\$0.0	\$1,395.5
Restore Other K-12 Programs		
At Risk Funding	\$0.0	\$314,200.0
Intermediate School Districts General Operations	\$0.0	\$92,170.8
Adult Education	\$200.0	\$75,000.0
School Readiness Preschool	\$200.0	\$72,800.0
Vocational Education	\$0.0	\$40,837.6
Career Preparation	\$22,200.0	\$22,200.0
Adult Learning	\$20,000.0	\$20,000.0
Math/Science Centers	\$548.0	\$10,232.3
Funding for Court Placed Children	\$0.0	\$8,900.0
Other Programs including Bilingual Education, Gifted and Talented, Bus Driver Safety, Accreditation Grant, Golden Apple, and Michigan Virtual High School	\$6,500.0	\$16,657.0
Restore School Performance Reporting in Department of Information Technology	\$4,500.0	\$4,500.0
Restore and Increase Renaissance Zones Reimbursement	\$10,174.0	\$10,174.0
One Time State Education Tax Administration Fee to County Treasurers	\$4,600.0	\$4,600.0
Transfer Federal Grants Funding from Department of Education	\$0.0	\$1,113,305.8
Transfer School Bond Loan Redemption Fund from Treasury	\$4,674.0	\$5,374.0
Transfer School Health Curriculum from Department of Community Health	<u>\$0.0</u>	<u>\$3,180.0</u>
Subtotal	\$157,650.7	\$4,666,967.0
FY2003 EXECUTIVE RECOMMENDATION	\$198,413.5	\$12,795,333.4

State School Aid

Funding shift provides property tax relief

Funding for public schools continues to be Governor Engler's top priority. In fiscal year 2003, for the sixth year in a row, the state will spend more state dollars on K-12 education than it spends in the entire general fund budget. State spending in the fiscal year 2003 school aid budget is almost \$11.5 billion, including \$198.4 million in general fund, an amazing commitment given the state's current fiscal situation. In addition, over \$1.3 billion of federal funds are appropriated, for a total appropriation of nearly \$12.8 billion. The Governor proposes to increase per pupil funding to \$6,700 and restore major categorical programs at current year levels. When local school operating property taxes are combined with state appropriations, total state and local funding for schools is estimated at nearly \$14.5 billion in fiscal year 2003.

Achievements of Engler Administration

School Finance Reform. One of Governor Engler's enduring legacies will be school finance reform, known as Proposal A. Prior to passage of Proposal A in 1994, Michigan property taxes were 30 percent above the national average and

property value assessments outpaced inflation, causing voter dissatisfaction and forcing senior citizens out of their homes. In 1993, 44 percent of all local school millage elections were defeated. Disparity in per pupil funding ranged from a low of \$3,398 in the Onaway Area Community school district to a high of \$10,294 in the Bloomfield Hills school district.

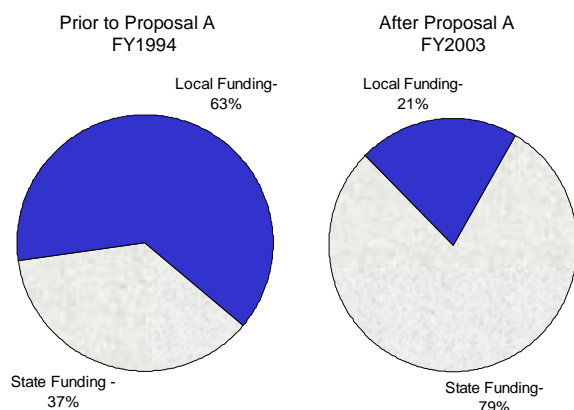
Bipartisan support evolved around several school finance reform goals: guarantee a minimum amount of per pupil funding, provide more equitable per pupil funding between districts, and reduce reliance on local property taxes. In

March 1994, voters approved a sales tax increase of two cents to replace the majority of local property taxes for school operating purposes.

After Proposal A passed, Michigan property taxes were cut by almost \$3 billion per year. School operating taxes were reduced from an average of 34 mills to 6 mills for most homeowners. Property tax assessment annual increases were capped at 5 percent or inflation, whichever was less, until ownership was transferred.

To address funding inequities, a minimum funding level of \$4,200 per pupil and a benchmark "basic" foundation allowance of \$5,000 per pupil was set in 1995. Fiscal year 1995 marked the first year that each school received at least \$4,200 per pupil. Each year thereafter, when the Legislature raised the basic foundation allowance, districts with per pupil funding below the basic foundation were provided an additional increase to close the funding gap

Funding Responsibility
Pre-and-Post Proposal A



between poorer and wealthier districts. In fiscal year 2000, the gap between the minimum and the basic foundation was closed. In fiscal year 2002, all districts received funding of at least \$6,500 per pupil - a threshold that once defined a wealthy district. The Governor recommends that per pupil spending be boosted to \$6,700 in fiscal year 2003.

Prior to Proposal A, the wealthiest K-12 district had per pupil funding in excess of three times of that of the poorest district. In eight short years, Proposal A has reduced the ratio between the wealthiest district and the poorest district to 1.8.

Special Education. Special education appropriations have increased from \$273.6 million in 1997 to over \$1.1 billion in 2003, a four-fold increase in only six years, serving over 230,000 children.

In 1997, after 17 years of litigation, the Michigan Supreme Court ruled that school districts were entitled to court-specified percentages of funding for special education services. The 84 plaintiff districts received nearly \$212 million in retroactive payments. The Governor and legislature voluntarily offered similar settlements to non-plaintiff districts. The total cost to taxpayers, including interest, was over \$1.1 billion.

In 1999, the Michigan Court of Appeals further clarified the original court decision by ruling that funds guaranteed by one section of the state Constitution (Proposal A) could not also be used to satisfy the state's obligations under a different section of the Constitution (Headlee). Therefore, in fiscal year 2001, the state demonstrated its compliance by establishing discrete payments as required by each section of the Constitution, plus a separate discretionary payment in excess of the state's constitutional obligations. This discretionary payment equaled \$2.5 billion in 2002.

Student Academic Improvement. There are many signs that the State's efforts to improve academic achievement have made a difference. Michigan students placed first in the nation in math and science achievement on the internationally benchmarked Third International Math and Science Study (TIMSS). Michigan fourth and eighth graders scored above the national average on the math portion of the National Assessment for Education Progress (NAEP). On average, not only do Michigan high school students do better than children from other states on the American College Test (ACT) and Scholastic Achievement Test (SAT), but more students are taking the test.

School Choice. Another of Governor Engler's legacies will be the implementation of schools of choice. School choice allows parents to seek a quality education for their children without having to relocate to a new district, and it provides a competitive incentive for schools to improve overall performance. Currently, over 350 school districts enroll 33,500 children who reside in other districts. More than 190 charter schools or public school academies enroll over 64,200 children.

*All
schools
boosted to
\$6,700
per pupil
in 2003*

Response to Revenue Decline

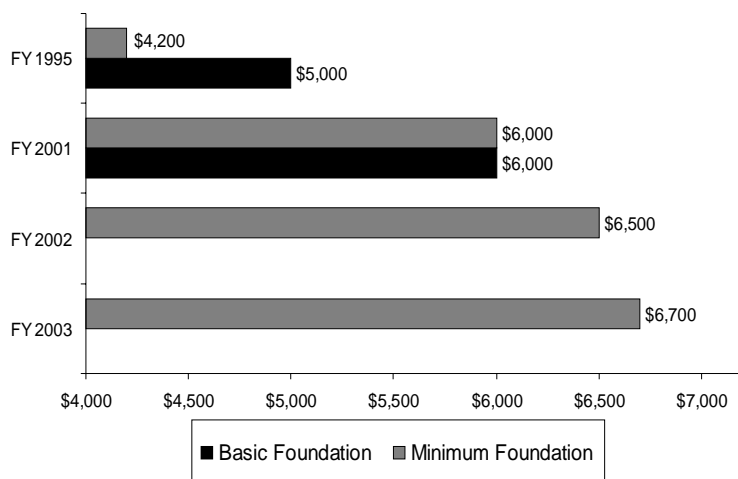
Despite declines in state revenues, the Governor and the Legislature increased school aid appropriations by five percent in fiscal year 2002, while general fund appropriations for state agencies declined almost eight percent. Up to \$350 million will be withdrawn from the Budget Stabilization Fund during fiscal year 2002 to shore up reduced School Aid Fund revenues and protect funding for schools. The Governor recommends that the full \$350 million be withdrawn and any remaining balance be carried forward for expenditure in fiscal year 2003.

Summary of Fiscal Year 2003 Executive Budget

Although faced with declining state revenues, the Governor is committed to boosting the minimum foundation allowance to \$6,700 per pupil in fiscal year 2003. This \$200, or 3.1%, per pupil funding increase will cost \$337 million. The Governor proposes modifying the state education tax collection structure in order to generate additional revenues in fiscal year 2003 that can be used to pay for this important enhancement. Currently, the six mill state education property

tax is collected in July and December each year. The Governor recommends that, beginning in July 2003, *all* of the state education tax be collected in the summer. To mitigate the burden that an earlier due date may cause for some taxpayers, the Governor proposes a one-time tax cut of \$266 million for all taxpayers in 2003 by reducing the millage rate from the current six mills to five mills. The estimated additional fiscal year 2003 revenue from this change in the tax collection schedule is just under \$500 million, providing enough revenue to support an increase in the foundation allowance to \$6,700 per pupil.

Closing the School Funding Gap



In addition, the Governor recommends restoring funding for the following programs at current year levels: at-risk, school readiness, vocational education and career preparation, intermediate school district operations and millage equalizations, adult education and adult learning, funding for court-placed children, Renaissance Zone reimbursement, bilingual education, math/science centers, gifted & talented programs, and other smaller programs.

Despite the decline in general fund revenues, the Governor recommends that the general fund contribution to the school aid fund remain at \$198.4 million – the current year level. However, \$79.5 million of that contribution is contingent on passage of legislation authorizing the deposit of excess Michigan Employment Security Act Contingency Fund revenues into the general fund.

All federal grant programs that support school district operations have been transferred from the Department of Education budget to the State School Aid budget to allow greater coordination with state school aid dollars. Federal implementation of the “No Child Left Behind Act of 2001” results in significant new resources for school districts. Federal formula-allocated funds received by Michigan from the U.S. Department of Education in this and other state budgets total more than \$1.4 billion, an increase of over \$172 million from the prior federal fiscal year. Accompanying this new funding are new federal mandates to improve school accountability. For example, students in grades three through eight must be tested annually in math and reading and, although there is increased financial assistance to help low-performing schools, those schools may be subject to sanctions if performance does not improve.

Notable changes in federal funding include:

- Title I grants to local school districts of almost \$410 million, an increase of \$54.4 million, for schools in high-poverty areas;
- New Title I Reading First grants of \$27 million focused on children in kindergarten to grade three;
- New Teacher Quality grants of almost \$107 million that combine funding from class size reduction and Eisenhower professional development grants and provide greater flexibility to strengthen the skills and knowledge of teachers and administrators;
- New 21st Century Community Learning Center grants of over \$11 million that provide extended learning opportunities, such as after-school and summer school for children in low-performing schools;
- New grants of \$1.9 million for rural and low-performing schools to instruct teachers on how to use technology to improve learning; and
- New Community Service grants of over \$1.6 million to help students who have been expelled or suspended from school and are required to perform community service.

STATE SCHOOL AID FUND BALANCES (In Millions)			
	FY2001	FY2002	FY2003
Revenues:			
Beginning Balance	\$853.4	\$694.8	\$271.8
Dedicated Current Year Revenues	9,994.1	10,213.4	10,596.6
Early State Education Tax Collections	0.0	0.0	493.7
General Fund	385.6	198.4	198.4
Budget Stabilization Fund	32.0	382.0	32.0
Federal Revenue	160.0	203.0	1,348.3
Local Revenue	0.0	0.0	0.7
Available School Aid Revenues	\$11,425.1	\$11,691.6	\$12,941.6
Expenditures			
PA 121 of 2001	\$10,892.3	\$11,458.3	\$8,128.4
Adjustments Recommended by Governor	0.0	(38.6)	3,216.3
Raise Per Pupil Foundation by \$200 to \$6700	0.0	0.0	336.7
Budget Transferred Federal Grants/Local Revenue	0.0	0.0	1,114.0
Revised Expenditures	\$10,892.3	\$11,419.8	\$12,795.3
Net Bookclosing Adjustments	(161.9)	0.0	0.0
Estimated Year End Balance	\$694.8	\$271.8	\$146.2

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
<p>Increase the percentage of 4th and 7th grade students who meet and exceed state standards on the MEAP mathematics and reading tests by 2.0%:</p> <p>4th Grade Math 4th Grade Reading</p> <p>7th Grade Math 7th Grade Reading 7th Grade Language Arts</p>	<p>74.8% 58.2% 62.8% 48.4% N/A</p>	<p>72.3% 60.4% N/A 57.9% 68.2%</p>	<p>+2.0% +2.0% N/A +2.0% +2.0%</p>	<p>+2.0% +2.0% N/A +2.0% +2.0%</p>
<p>Increase the percentage of 5th and 8th grade students who meet and exceed state standards on the MEAP science, writing and social studies tests by 2.0%:</p> <p>5th Grade Science 5th Grade Writing 5th Grade Social Studies</p> <p>8th Grade Science 8th Grade Writing 8th Grade Social Studies</p>	<p>43.6% 67.8% 20.6% 24.2% 66.8% 30.8%</p>	<p>41.6% 61.1% 18.8% 19.7% 67.0% 30.0%</p>	<p>+2.0% +2.0% +2.0% +2.0% +2.0% +2.0%</p>	<p>+2.0% +2.0% +2.0% +2.0% +2.0% +2.0%</p>
<p>Increase the percentage of high school students who meet and exceed state standards on the MEAP mathematics, reading, science, writing and social studies tests by 2.0%:</p> <p>Math Reading Science Writing Social Studies</p>	<p>64.8% 69.4% 55.6% 58.4% 24.1%</p>	<p>68.4% 74.2% 60.3% 68.5% 26.6%</p>	<p>+2.0% +2.0% +2.0% +2.0% +2.0%</p>	<p>+2.0% +2.0% +2.0% +2.0% +2.0%</p>
<p>Improve the ACT scores of Michigan high school seniors. Maintain a composite score greater than the national average by .2 or more points (the 1999 and 2000 national averages were 21.0)</p>	21.3	N/A	+2.0 points	+2.0 points
<p>Increase the percentage of districts with educational choice options by five percentage points annually.</p>	52.5%	58.3%	64.3%	+5.0%

Universities, Grants and Financial Aid

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$1,193,518.7			\$1,785,850.6	\$1,812,668.5	\$1,811,997.3
All Funds	\$1,197,173.8			\$1,910,550.9	\$1,925,842.4	\$1,939,071.2
		% Change - GF/GP			1.5%	-0.0%
		% Change - All Funds			0.8%	0.7%

KEY ISSUES	GF/GP	All Funds
Michigan Merit Award Program	\$0.0	\$11,300.0
Rare Isotope Accelerator	\$0.0	\$2,000.0
Federal Financial Aid Increase	\$0.0	\$600.0
HEIDI Data Base	(\$25.0)	(\$25.0)
Spring Arbor College Prison Program	(\$135.3)	(\$135.3)
Eliminate Funding for Michigan Molecular Institute	(\$236.9)	(\$236.9)
Cap Project GREEN Funding at \$6.0 Million	(\$191.5)	(\$191.5)
Midwest Higher Education Compact Dues	<u>(\$82.5)</u>	<u>(\$82.5)</u>
Subtotal	(\$671.2)	\$13,228.8
FY 2003 Executive Recommendation	\$1,811,997.3	\$1,939,071.2

Universities, Grants and Financial Aid

As we enter an increasingly complex future, every Michigan citizen will require the skills to adapt to changing jobs and economic conditions. More than ever, quality post-secondary education and basic and applied research will determine our future prosperity. Michigan's 15 public universities and 54 independent, nonprofit colleges and universities are key to building the skills and abilities we need to thrive in the 21st century. The Governor's fiscal year 2003 budget continues his commitment to higher education. The fiscal year 2003 recommendation for higher education maintains funding at the current year level, totaling over \$1.9 billion, of which \$1.8 billion is general fund.

Achievements of Engler Administration

Over the past 12 years Michigan's higher education system has been strengthened and is one of the most highly regarded in the nation. Since fiscal year 1990, general fund support for higher education has increased by \$618

million - well above inflation. University operations funding has been exceptionally generous in recent years with a 34.5 percent increase since 1995, compared to inflation of just over 20 percent. In 2000, the Governor recommended a funding model to create more equity in per pupil funding between state universities. This resulted in the creation of five university groups and the establishment of a per student funding floor for each group. As a result of this funding model, legislative debate has focused on improving per pupil funding equity.

In addition to support for operating needs, since 1990 the state has committed to spending \$1.9 billion for capital outlay projects on Michigan's 15 public university campuses. This investment will help ensure that Michigan's students, teachers and researchers have facilities that cultivate learning and support research.

University Operations (\$ in millions)	FY 2003
University of Michigan	\$363.6
Michigan State University	\$326.0
Wayne State University	\$253.6
Western Michigan University	\$125.7
Central Michigan University	\$90.0
Eastern Michigan University	\$87.6
Grand Valley State University	\$60.1
Ferris State University	\$55.5
Michigan Technological University	\$55.2
Oakland University	\$52.4
Northern Michigan University	\$52.0
University of Michigan - Dearborn	\$28.0
Saginaw Valley State University	\$27.4
University of Michigan - Flint	\$24.1
Lake Superior State University	\$14.3
Total	\$1,615.5

A major hallmark of the Engler legacy will be his efforts to make postsecondary education more affordable. Beginning with the high school class of 2000, the Michigan Merit Award program was created. This program provides \$2,500 awards based on student achievement on Michigan Education Assessment Program (MEAP) or other achievement tests. The award may be used for education and training in a variety of settings. In the first two years of the program, more than 91,000 high school seniors qualified for a Michigan Merit Award.

In November, 2000, Michigan implemented the Michigan Education Savings Plan. The Education Savings Plan offers tax and investment features to help all Michigan families save for college. More than 31,000 families have invested approximately \$71 million to help fund their children's educational expenses.

Response to Revenue Decline

Both the Governor and the Legislature have acted to protect higher education from the effects of the current recession. In fiscal years 2001 and 2002, spending for higher education *increased* by 6.3 percent and 1.5 percent respectively, compared to general fund revenue *declines* of 8.1 percent in 2001 and 2.6 percent in 2002.

Summary of Fiscal Year 2003 Executive Budget

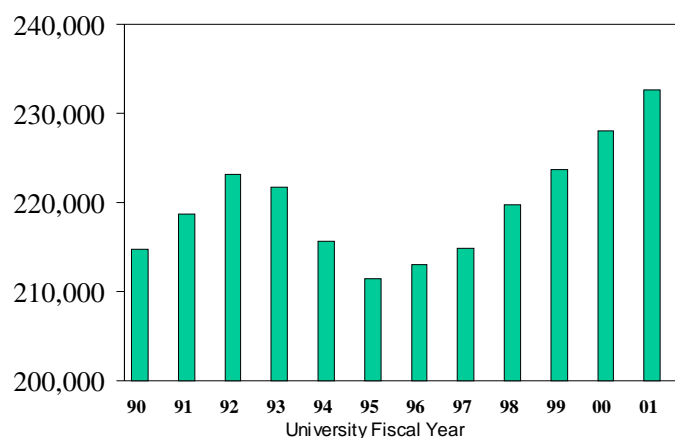
The Executive Recommendation again protects higher education from reductions by continuing operations funding at current levels. However, to keep higher education affordable for students, the Governor recommends that universities restrain 2002-2003 tuition and fee increases to no more than 8.5 percent or \$425, whichever is greater, and document significant increases in utilities, retirement, technology, or health care. Universities that raise tuition rates higher than this cap will have state operations funding reduced to offset dollars raised above the cap.

In his 2002 State of the State address, Governor Engler discussed the exciting opportunity Michigan has to become the world's leading center for research in nuclear structure and nuclear astrophysics. The U.S. Department of Energy and the National Science Foundation are preparing to invest \$1 billion to develop a new Rare Isotope Accelerator (RIA). Such a facility, located on the Michigan State University campus, could become the catalyst for an explosion of high-tech research and development. The Governor's fiscal year 2003 recommendation includes \$2.0 million to support project planning and design efforts.

College enrollment is on the upswing

Several small, targeted reductions are recommended by the Governor, including the elimination of funding for the Michigan Molecular Institute (\$236,900), the defunct Spring Arbor College prison program (\$135,300), and the Midwest Higher Education Compact (\$82,500). In addition, the Governor recommends capping support for Project GREEN at \$6.0 million, and reducing funding for the Higher Education Institutional Data Inventory (HEIDI).

More Students Attend Public Universities



The Governor's budget includes an additional \$11.3 million from the Michigan Merit Award Trust Fund to pay for an increase in students qualifying for Michigan Merit Awards. An additional \$600,000 in available federal funds is included for State Competitive Scholarships and Byrd Scholarships.

(Amounts In Thousands)

	<u>FY90</u>			<u>FY01</u>	<u>FY02</u>	<u>FY03</u>
GF/GP	\$212,490.5			\$315,011.7	\$319,596.3	\$319,732.3
All Funds	\$212,490.5			\$325,011.7	\$321,596.3	\$321,732.3
		% Change - GF/GP			1.5%	0.0%
		% Change - All Funds			-1.1%	0.0%

KEY ISSUES	GF/GP	All Funds
Renaissance Zone Reimbursement Funding	\$136.0	\$136.0
Subtotal	\$136.0	\$136.0
FY 2003 Executive Recommendation	\$319,732.3	\$321,732.3

Community Colleges

Michigan's comprehensive community college system provides its citizens with access to affordable, high quality postsecondary education. Last year, over 400,000 residents increased their skills by taking courses at one of Michigan's 28 public two-year colleges in the areas of occupational training, professional and personal development, and preparation for continued study at four-year colleges and universities. State funding provides one-third of total community college operating revenues. The Governor's fiscal year 2003 budget recommendation maintains fiscal year 2002 appropriation levels for community colleges and totals \$321.7 million, \$319.7 million general fund.

Community College Operations (\$ In Thousands)	FY 2003
Macomb	\$34,381.0
Lansing	32,223.0
Henry Ford	22,708.5
Oakland	21,688.0
Grand Rapids	18,633.4
Wayne County	17,223.7
Mott	16,291.5
Delta	14,813.9
Washtenaw	12,937.2
Kalamazoo Valley	12,826.0
Schoolcraft	12,728.7
Jackson	12,570.4
Kellogg	10,077.0
Northwestern	9,460.2
Muskegon	9,271.1
St. Clair	7,264.6
Southwestern	6,832.8
Lake Michigan	5,423.5
Alpena	5,312.0
Bay de Noc	5,129.9
Mid Michigan	4,586.4
Monroe	4,462.2
Gogebic	4,365.1
Montcalm	3,227.5
North Central	3,140.2
Kirtland	3,058.4
Glen Oaks	2,485.5
West Shore	2,382.3
Total	\$315,504.2

Achievements of Engler Administration

Since fiscal year 1990, the general fund support for community colleges has increased by \$107 million - 50 percent - well above inflation. This increased state support has helped community colleges remain affordable. The average cost for a full-time student to attend a community college is approximately \$1,800. This compares to average tuition and fees exceeding \$4,900 at state universities. Additionally, community college students benefit from several state student financial aid programs including the Tuition Incentive Program and the Postsecondary Access Student Scholarship Program, which primarily target students enrolled in associate degree programs.

State support has been provided to meet capital and infrastructure needs as well as operating needs. Since 1990 the state has authorized almost \$560 million for 47 different community college building and renovation projects to provide modern academic facilities on community college campuses.

Over the past 12 years, Michigan's community college system has been an integral part of Michigan's economic development success. A recent issue of *Expansion Management* magazine ranked Michigan among the best states in workforce training programs. Cooperative partnerships between the state and community colleges to promote workforce development include:

M-TEC's. The state has committed \$60 million for community college capital costs to establish eighteen new technical training centers called Michigan Technical Education Centers (M-TEC's).

There are 13 M-TEC's currently open and four more are scheduled to open this year. These centers deliver training tailored to specific skills for high wage, and high demand, occupations such as information technology.

Economic Development Job Training Program. The Economic Development Job Training (EDJT) program, created in 1993, provides job training assistance to Michigan businesses to improve the skills of current and future employees. The program annually serves more than 500 companies and provides training to more than 40,000 people. Community colleges conduct more than 70 percent of the training funded by this program.

Response to Revenue Decline

Both the Governor and the Legislature have acted to protect community colleges from the effects of the current recession. In fiscal years 2001 and 2002, general fund spending for community colleges *increased* by 6 percent and 1.5 percent respectively, compared to net general fund revenue *declines* of 8.1 percent in fiscal year 2001 and 2.6 percent in fiscal year 2002.

Summary of Fiscal Year 2003 Executive Budget

The Executive Recommendation protects community college operations funding from reductions and adds \$136,000 to reimburse colleges for revenue loss as a result of the establishment of Renaissance Zones, bringing the total Renaissance Zone reimbursement to \$536,000.

Department of Education

(Amounts In Thousands)

Funding History

	FY90				FY01	FY02	FY03
GF/GP	\$35,917.5				\$35,155.3	\$32,400.8	\$30,109.7
All Funds	\$278,162.3				\$929,969.9	\$995,104.9	\$89,896.0
		% Change - GF/GP				-7.8%	-7.1%
		% Change - All Funds				7.0%	-91.0%

KEY ISSUES

	GF/GP	All Funds
School Breakfast Program Increase	\$946.9	\$946.9
Special Education Auditor	\$95.1	\$95.1
Administrative Allocation Adjustments from Federal and State Restricted Funding	\$0.0	\$4,855.5
Michigan Schools for the Deaf and Blind Fund Shift to Federal Funds	(\$3,313.4)	\$0.0
Transfer Federal Grants to School Aid Budget	\$0.0	(\$911,312.0)
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$73.8)	(\$180.0)
Economic Adjustments	\$143.7	\$475.2
Staff Reductions Needed to Pay for Employee Economics (1.4 FTE's)	(\$89.6)	(\$89.6)
Subtotal	(\$2,291.1)	(\$905,208.9)
FY 2003 Executive Recommendation	\$30,109.7	\$89,896.0

Department of Education

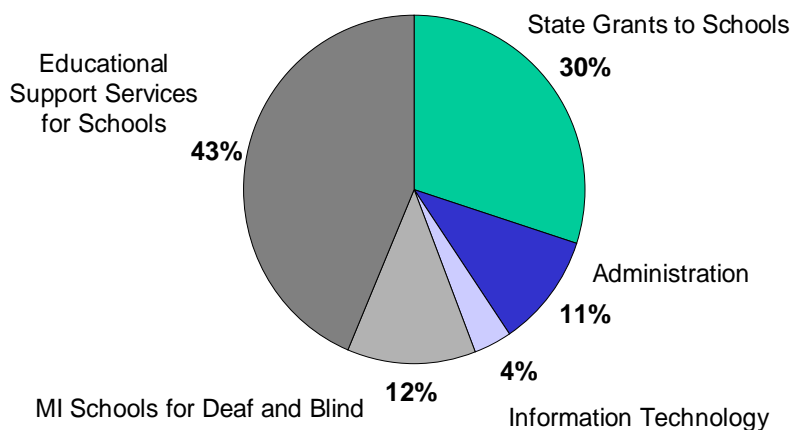
The Department of Education administers nearly \$12.8 billion in state school aid payments and federal grants distributed to Michigan's public schools annually. The department focuses on improving student achievement through early intervention programs and special education, as well as providing targeted services to low-achieving schools. In addition, the department is responsible for certifying that new teachers are prepared to teach. The department also oversees the state schools for the deaf and blind. The recommended budget for the Department of Education is \$89.9 million total, of which \$30.1 million is general fund.

Achievements of Engler Administration

Department Re-Engineering. Through a series of reorganizations during the 1990s, the Governor shifted auxiliary functions from the department to other state agencies in order to focus the department's efforts on improving Michigan's pre

K-12 education system. Postsecondary education functions such as adult education and community college oversight, as well as career and workforce preparation, were moved to the newly created Department of Career Development. Scholarship administration, including oversight of the Michigan Merit Award and related Michigan Educational Assistance Program testing, were moved to the Department of Treasury. Independent reporting of educational performance was instituted through the creation of the Center for Educational Performance

FY 2003 Spending By Category



Over 70% and Information and by contracting with Standard & Poor's to produce its School Evaluation Services Web site reports.

of funding directly benefits local schools

Early Intervention Programs. The state's School Readiness program continues to work in collaboration with the federal Head Start program to prepare preschoolers for future academic success. Approximately \$85 million in the department and school aid budgets allows over 25,000 four-year-olds to participate. Since 1990, funding for the School Readiness Program has increased almost 300 percent, and participation has increased by 170 percent. The Early-On Program provides support services to nearly 12,600 infants and toddlers who are in need of early intervention services due to disabilities or developmental delay. Preschool special education services are also provided to over 14,600 children with disabilities.

The goal of early literacy programs is to insure that all children are reading at grade level by the time they reach the fourth grade. The state has distributed

thousands of the popular reading readiness packages (READY kits) to parents of infants and toddlers. In addition, the department created the Michigan Literacy Progress Profile to provide pre-kindergarten to third-grade teachers with literacy assessment and monitoring tools.

Assistance to Low-Achieving Schools. In 1998, the department reorganized its technical assistance staff into regional field offices to work more directly with school districts. Working with intermediate school district personnel, the department provides grants to mentor and coach primarily kindergarten through third grade teachers, in schools where more than 40 percent of students scored in the lowest category on the Michigan Educational Assistance Program assessments. In addition, the department has placed a specially selected and trained Partner Educator in residence in ten low-performing schools to provide sustained, direct, on-site technical assistance at the building level in an effort to improve teaching and learning.

Response to Revenue Decline

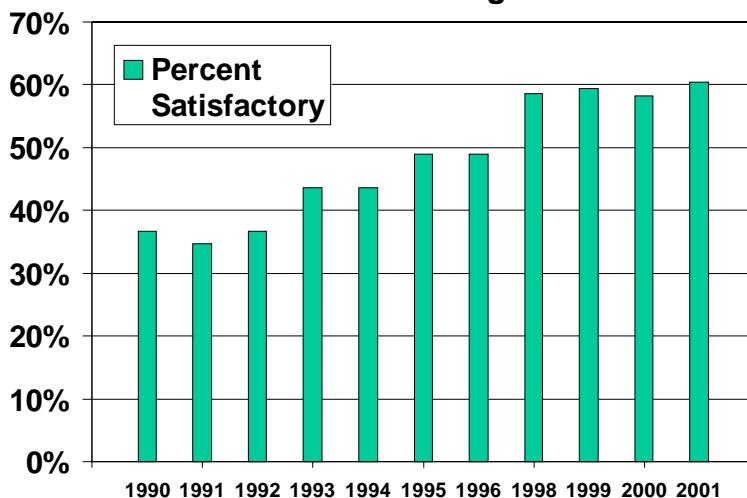
In fiscal year 2001, the department implemented budgetary reductions to capture \$173,400 in general fund savings through administrative efficiencies and additional use of restricted funding sources. In fiscal year 2002, due to continuing revenue declines, Executive Order 2001-9 reduced the department's budget by \$1.5 million general fund. Reductions were achieved by increased use of restricted funds, administrative efficiencies, and hiring freeze savings. No layoffs were required and the core services of the department were preserved.

Summary of Fiscal Year 2003 Executive Budget

The general fund reductions assumed in Executive Order 2001-9 continue in fiscal year 2003. In addition, funding for the operations at the Michigan Schools for the Deaf and Blind has been shifted from general fund to federal special education funds; support for the school breakfast program has been increased by \$946,900 due to increased demand; and \$95,100 has been added to support special education audit functions.

In order to consolidate all ongoing funding for local school districts in one budget, over \$900 million in federal funds previously budgeted in the Department of Education budget has been transferred to the State School Aid budget. The department will continue to monitor and distribute these grants and, in fact, will increase their oversight using additional federal administrative funds that will be available in fiscal year 2003.

4th Grade Reading Tests



*Emphasis
on
reading
pays off*

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
Increase the percentage of students who meet or exceed state standards on the reading portion of the 4 th grade MEAP	58.0%	60.4%	62.4%	64.4%
Through early intervention, decrease the percentage of school-age students identified as learning disabled due to a reading deficiency at or before 4 th grade	2.33%	2.24%	2.15%	2.10%
Increase the early identification rate of infants and toddlers with disabilities (census estimate of children with disabilities is 2.2%)	1.8%	2.0%	2.2%	2.15%
Increase the percentage of local districts achieving satisfactory levels of accreditation under new accreditation system	N/A	N/A	Implement	+10%
Increase the percentage of public school buildings participating in the following programs:				
School breakfast	72.5%	73.2%	74%	75%
After-school snacks	18.9%	25.0%	26%	27%

Department of Career Development

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$19,651.0			\$30,542.7	\$34,602.7	\$34,679.8
All Funds	\$412,639.4			\$523,538.5	\$525,121.6	\$534,318.7
	% Change - GF/GP				13.3%	0.2%
	% Change - All Funds				0.3%	1.8%

KEY ISSUES

		GF/GP	All Funds
Federal and Private Funding Adjustments		\$0.0	\$8,210.3
-Gear-up Program Grant	\$3,000.0		
-Employment Training Services	\$2,103.9		
-Vocational Rehabilitation Services	\$1,155.8		
-Carl D. Perkins Grant	\$1,000.0		
-Career and Technical Education	\$500.0		
-Michigan Career and Technical Institute	\$349.7		
-Post Secondary Education	\$100.9		
Adjustments to Reflect End of 1997 Early Retirement Payouts		(\$14.0)	(\$346.4)
Economic Adjustments		\$236.4	\$1,478.5
Staff Reductions Needed to Pay for Employee Economics (Non-Institutional Staff - 2.0 FTE's)		<u>(\$145.3)</u>	<u>(\$145.3)</u>
Subtotal		\$77.1	\$9,197.1
FY 2003 Executive Recommendation		\$34,679.8	\$534,318.7

Department of Career Development

The Michigan Department of Career Development was created in 1999 and is the state's career development agency, providing job training, recruitment and career preparation programs. The department works with employers, K-12 schools, community colleges and local Michigan Works! Agencies to develop a comprehensive career development system. The recommended budget for the Department of Career Development is \$534.3 million total, of which \$34.7 million is general fund.

Achievements of Engler Administration

Michigan Works! The Michigan Works! system consists of 25 Michigan Works! agencies and a network of over 100 local one-stop service centers. The One-Stop Centers were added under the Engler Administration, and provide a wide range of employment, training, and career education services to anyone interested in hiring a worker, finding a job, or getting career information.

The department and local Michigan Works! agencies work together to ensure that citizens benefit in a variety of ways, such as linking veterans to service organizations that provide job preparation and placement assistance; and linking employers and job seekers through the Michigan Talent Bank to post both job openings and resumes. They also link residents with disabilities to the Michigan Rehabilitation Services program for career preparation and job placement services; direct citizens who wish to obtain their high school diplomas, obtain their GED's, or learn English as a second language to adult education providers; and help public assistance clients find jobs. The department has played a key role in welfare reform through the Work First program, which has been in existence since 1995 and has helped more than 380,000 public assistance clients obtain employment. The Michigan Works! system provided services to approximately 1.3 million residents in 2001, an increase of 37 percent over the prior year.

"Whoever named it Michigan Works, well, it actually does work. Everything started falling in line for me."

Dorthea McDell, Army veteran and Michigan Works! client, Detroit Free Press, July 3, 2001

Career Preparation. Career preparation is a system designed to provide students with opportunities to explore a variety of careers throughout their K-12 education and beyond. The career preparation system is structured around six career pathways: arts and communication; business management, marketing and technology; engineering, manufacturing and industrial technology; health sciences; human services; and natural resources and agriscience. Each pathway encompasses an entire spectrum of career options, providing students an opportunity to learn about educational requirements, relevant coursework, fast-growing occupations, and personal characteristics needed for success. At least 73 high schools and 14 community colleges are using a career pathway structure for organizing teaching and learning. Additionally, 75 percent of school districts have committed to using student educational development plans and career pathways by 2004.

Michigan Rehabilitation Services. In 2001, the Michigan Rehabilitation Services was selected by the U.S. Department of Education as one of two recipients for outstanding programs. The award acknowledged the success of the interactive distance learning and Internet-based information management system (E-Learn Community), which was created in May, 2001. E-Learn Community is used by rehabilitation counselors and Michigan citizens with disabilities to assist in the development of employment plans. Currently 27,000 Michigan citizens with disabilities benefit from this state-of-the-art technology.



Michigan Community Service Commission. Governor Engler created the Michigan Community Service Commission in 1991 to promote volunteerism and community service. Formerly chaired by First Lady Michelle Engler, the Commission annually distributes over \$8.0 million in state and federal grants to local communities and coordinates volunteer efforts statewide, including Learn and Serve Michigan, a school and community-based program which provides service-learning opportunities for youth. Another key program, Michigan AmeriCorps, is a domestic version of the Peace Corps dedicated to getting things done in local communities. Through Volunteer Investment Grants, a program unique in the nation, the Commission supports organizations willing to function as community volunteer resource centers. Also, through an annual appropriation of tobacco settlement revenue, the Commission partners with the Council of Michigan Foundations to address youth and senior health needs, including tobacco use cessation programs. Another partner, Connect Michigan Alliance, received a one-time appropriation of \$10 million in fiscal year 2000 to establish a statewide endowment supporting volunteerism.

Response to Revenue Decline

In response to declines in state revenues, the department saved \$127,200 in fiscal year 2001 through administrative efficiencies. In addition, during fiscal year 2002, Executive Order 2001-9 reduced the department's on-going funding by \$3.7 million. Savings were achieved through on-going reductions to the Council of Michigan Foundations (\$2.0 million), Welfare-to-Work general fund reductions (\$1.5 million), pre-college programs in engineering and the sciences (\$104,500), and Michigan Community Service Commission subgrantees (\$50,000). A one-time reduction of \$8.0 million was realized from the department's career education work project.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 recommendation continues all of the on-going reductions that were part of Executive Order 2001-9. In addition, funding for the department is increased by over \$8.2 million due to the receipt of additional federal funds. Federal funds of \$3.0 million were added for the Gear-up Program, which allows low-income students to prepare for undergraduate programs. Federal employment training funding was increased by \$2.1 million to provide

additional support for local training centers. Vocational Rehabilitation funding was increased by \$1.2 million to provide additional services to disabled clients. Carl D. Perkins grants were increased by \$1.5 million to support career training in schools and postsecondary institutions. Support for the Michigan Career and Technical Institute was increased by \$350,000 to cover data transmission costs in the dormitory and classrooms. In addition, the Executive Recommendation funds non-discretionary economic adjustments and eliminates two positions to pay for employee economic increases.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
Help public assistance recipients into the workforce by maintaining an employment rate of at least 50% for Work First participants				
Employed	53%	50%	50%	50%
Retained 90+ days	48%	45%	45%	45%
Assist participants to economic independence by closing at least 20% of Work First cases due to job placement or increased earnings	21%	20%	20%	20%
Help employers find qualified workers by increasing the percentage of employers hiring job seekers after using the Michigan Talent Bank	42%	44%	46%	46%
Assist unemployed veterans into the workforce by increasing the placement rate of veterans seeking services at One Stop Centers and other outreach facilities	34%	38%	40%	40%
Help people with severe disabilities achieve employment and self sufficiency by maintaining the number who are successfully rehabilitated and employed	7,590	7,479	7,475	7,475
Ensure that at least 95% of students completing career technical education programs are successfully placed in jobs or continue in postsecondary education	94.5%	94.5%	95%	95%
Help adults improve job skills to get a better job by increasing the percentage who elevate reading levels to a functional level or who gain sufficient job readiness skills to enter the workforce	N/A	20%	22%	24%

(Amounts In Thousands)

	FY90			FY01	FY02	FY03
GF/GP	\$25,925.5			\$65,123.5	\$60,156.2	\$46,080.2
All Funds	\$106,855.3			\$168,603.4	\$169,090.6	\$155,037.5
		% Change - GF/GP			-7.6%	-23.4%
		% Change - All Funds			0.3%	-8.3%

KEY ISSUES	GF/GP	All Funds
Remove One-time Funding for Capital Access Program	(\$1,000.0)	(\$1,000.0)
Suspend Spring and Summer Economic Development Job Training Grant Awards	(\$13,000.0)	(\$13,000.0)
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$41.4)	(\$41.4)
Economic Adjustments	\$199.9	\$222.8
Staff Reductions Needed to Pay for Employee Economics (2.5 FTE's)	<u>(\$234.5)</u>	<u>(\$234.5)</u>
Subtotal	(\$14,076.0)	(\$14,053.1)
FY 2003 Executive Recommendation	\$46,080.2	\$155,037.5

Michigan Strategic Fund

The Michigan Strategic Fund is the agency responsible for overseeing the state's economic development strategies. The appropriation to the Michigan Strategic Fund is used to support global and statewide business development and job creation activities, promote statewide tourism, and administer federal community development block grants. Total recommended funding for the Michigan Strategic Fund is \$155.0 million, of which \$46.1 million is general fund.

Achievements of Engler Administration

Michigan's economic development infrastructure has been evolving in response to the new economy. In fiscal year 1999, Executive Order 1999-1 transferred all economic development functions to the Michigan Strategic Fund and the Fund was moved to the Department of Management and Budget as an autonomous agency. The Michigan Strategic Fund was empowered to enter into partnerships with local governments to create the Michigan Economic Development Corporation (MEDC).

The MEDC is a public corporation and is guided by a board of directors, chaired by the Governor, and comprised of business executives, local economic developers and others interested in guiding Michigan's economic development efforts. All of the state's business services are under the umbrella of this

"Michigan is firmly entrenched as the crown jewel of economic development."

Site Selection Magazine, "It's MICH-AGAIN," March 2001

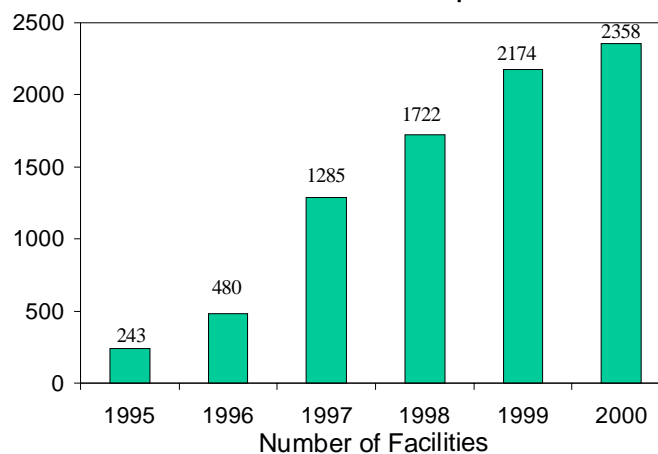
organization, creating a one-stop resource for businesses seeking to locate or expand in Michigan. The MEDC offers companies various economic development services that include site location, site infrastructure development, business finance consultation services, tax incentives and abatements, as well as worker recruitment and job training. MEDC account managers visit more than 5,000 companies each year to assess business needs.

In the financial arena, the MEDC, in conjunction with the Michigan Strategic Fund, encourages business expansion and retention by facilitating the use of property tax abatements, job creation tax credits, and infrastructure grants. To date, 216 projects have been established in Michigan's 23 tax-free Renaissance Zones located in economically depressed areas of the state, resulting in over 5,800 jobs and \$1.3 billion in private investments. The State's pioneering urban reinvestment program of brownfield redevelopment tax credits has been expanded to cover not just contaminated sites, but restoration of blighted properties. Since 1995, Michigan Economic Growth Authority (MEGA) has assisted 137 location projects, created and retained over 165,000 jobs, and generated capital investment of \$7.1 billion. As a result of these efforts, *Plants Sites & Parks* magazine awarded Michigan their 2001 Tiffany Cup as the number one "Hot State" for business sites and facilities.

To foster educational opportunities in the state, in 1998 the Governor and the Michigan Economic Development Corporation established the Michigan Virtual University (MVU) to deliver on-line education to businesses, college faculty, K-12 teachers and students. The Michigan Virtual University does not independently grant degrees; instead credentials are granted by the organization providing the program, such as public and private colleges, universities, and commercial training providers.

The MEDC is coordinating the creation of a \$60 million dollar network of 18 Michigan Technical Education Centers (M-TEC's) operated by community colleges to develop highly skilled workers in targeted fields. In fiscal year 2001, seven M-TEC's served over 500 employers, and provided training to 16,000 individuals. In addition, the state has invested over \$340 million in job training grants since 1993. *Expansion Management* magazine ranked Michigan's workforce training program third in the nation in 2001.

Business Investment –
New Locations and Expansions



The MEDC has identified three business sectors in Michigan that use technology and have the potential to transform the state's economy: information technology, life sciences, and advanced manufacturing. High-tech infrastructure is being put in place with the creation of 11 SmartZones — collaborative clusters of technological businesses and research institutions. To date, 14 high-tech businesses have located in SmartZones, resulting in over \$100 million of high tech investment in Michigan's communities. The state has committed to invest \$1 billion in the Life Sciences Corridor, a cooperative venture between Michigan's major research universities and the Van Andel Institute to promote commercialization opportunities in life sciences research.

*Michigan
ranks #1
in business
investment*

Response to Revenue Decline

The Michigan Strategic Fund reduced its fiscal year 2001 budget by \$328,000 through administrative efficiencies, vacancy savings, and economic development job training grant reductions. In addition, Executive Order 2001-9 reduced the Michigan Strategic Fund's fiscal year 2002 appropriation by \$9.8 million. Savings were achieved by deferring employee training and technology investment; by reducing out-of-state travel promotion efforts and economic development job training grants; and by reducing Life Sciences funding by \$5.0 million. In addition, one-time savings of \$2.0 million were achieved by reducing prior year work project funding.

Summary of Fiscal Year 2003 Executive Budget

Due to the continuing revenue decline, the Governor's fiscal year 2003 budget reduces the general fund appropriations for the Michigan Strategic Fund by \$14.1 million. These adjustments include the removal of one-time funding for the Capital Access Program (\$1.0 million), which had been included in the current year budget. In addition, the Governor recommends the temporary suspension of job training grants during the spring and summer of 2003, thus saving \$13.0 million general fund. The recommendation also provides funding for non-discretionary economic adjustments, but eliminates 2.5 positions to offset costs associated with employee economic increases.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
In order to strengthen the Michigan economy, increase economic development activity through direct involvement of the MEDC				
Job Retention	62,200	77,012	78,900	74,000
Job Creation	24,473	24,016	24,600	24,800
Private Investment	\$4.7 billion	\$7.8 billion	\$5.7 billion	\$6.1 billion
In order to improve business competitiveness, provide specialized advanced skills training through the Economic Development Job Training program (number of employees of Michigan employers trained)				
	86,541	47,956	42,000	21,400
Rank in the top five states for number of new plants and expansions (as rated by national survey)				
	#1	#1	Top Five	Top Five

Consumer and Industry Services

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$171,954.0			\$57,478.3	\$37,896.7	\$37,987.9
All Funds	\$421,830.3			\$502,772.6	\$557,480.4	\$570,138.1
	% Change - GF/GP				-34.1%	0.2%
	% Change - All Funds				10.9%	2.3%

KEY ISSUES	GF/GP	All Funds
1500 Section 8 Housing Vouchers	\$0.0	\$6,000.0
Increased Unemployment Costs	\$0.0	\$1,300.0
Additional Nursing Scholarships	\$0.0	\$248.0
Consulting Services for Financially Troubled Insurers	\$0.0	\$1,500.0
Financial Triennial Examination	\$0.0	\$1,000.0
Boiler Inspectors and Equipment	\$0.0	\$611.5
Elevator Inspectors and Equipment	\$0.0	\$387.1
New Fire Safety Office in Southeast Michigan	\$0.0	\$287.7
Transfer to History, Arts and Libraries	(\$150.0)	(\$150.0)
Replace Corporations and Securities Funding with Michigan Employment Security Act Contingent Fund Revenues	\$0.0	\$0.0
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$88.4)	(\$1,180.6)
Economic Adjustments	\$1,150.5	\$5,131.0
Staff Reductions Needed to Pay for Employee Economics (11.0 FTE's)	(\$970.9)	(\$970.9)
Other Adjustments	<u>\$150.0</u>	<u>(\$1,506.1)</u>
Subtotal	\$91.2	\$12,657.7
FY 2003 Executive Recommendation	\$37,987.9	\$570,138.1

Consumer and Industry Services

Michigan Department of Consumer and Industry Services continues to support the health, safety and economic welfare of Michigan citizens through effective oversight and customer service.

Created in 1996, the Department of Consumer and Industry Services has embodied the Governor's vision that regulation and service are not mutually exclusive. Meeting the needs of customers in a fair, consistent, timely and innovative manner has allowed the department to become a customer-oriented regulatory agency, delivering effective and efficient services to nearly 1.5 million entities and individuals.

The Governor's fiscal year 2003 total budget recommendation for the Department of Consumer and Industry Services is \$570.1 million, of which \$38.0 million is general fund.

Achievements of Engler Administration

To provide Michigan residents with a more service oriented and user-friendly state government, the Governor consolidated components of seven different departments, including regulatory services, commerce, and labor services into one department — the Department of Consumer and Industry Services. This process began in 1991 with Executive Order 1991-9 and concluded in May 1996 with Executive Order 1996-2. The executive action restructured licensing, permitting and registration functions to streamline services and ensure the most efficient use of taxpayer dollars.

"We have to regulate, but you can do regulation within a service environment."

**Kathy Wilbur, Director of
Consumer and Industry
Services, September 21, 1997**

The department's primary goal of improving customer service has paid high dividends for Michigan residents. Streamlining licensing processes, privatizing services, and using the Internet to collect and share information has made interactions with the state less burdensome. Further, the department's focus on protecting citizens through its oversight responsibilities for nursing homes, child day care facilities, foster care homes and other regulated facilities has improved the quality of care for children and vulnerable adults.

Quality Customer Service. Demonstrating the department's commitment to quicker response times, the caseloads of the Workers' Compensation Board of Magistrates are currently the lowest in a decade. In another effort to improve customer service, the Bureau of Commercial Services created a new electronic filing system, called MICH-ELF. This expedited, paperless process allows customers to submit documents via fax. The documents are reviewed, processed and filed in under 24 hours.

A paramount concern for the department has been the quality of care provided in Michigan's nursing homes, adult foster care facilities, hospices and child care

centers. To recognize and promote excellence in long-term care, the department established the Governor's Quality Care Awards. Since 1997, about 200 providers who give high quality care to vulnerable Michigan citizens have received awards. To ensure quality care, a Resident Protection Initiative was developed to identify poor performing facilities quickly and provide early intervention in order to correct existing problems. Facilities unable to address such problems are closed. In 2000, Michigan created one of the first Quality Improvement Nurse Consultant programs in the country. This voluntary program is intended to help nursing homes improve outcomes through best practices, problem resolution, and up-to-date training on current care issues.

Efficiencies. The department has implemented other operational efficiencies by eliminating duplicate processes and combining operations. All worker safety efforts are now combined under one agency with an emphasis on preventing workplace accidents and injuries, and improving overall safety in the workplace. The Office of Fire Safety now conducts all state-required fire safety inspections and the Bureau of Hearings has centralized most administrative law hearings, including retirement and transportation hearings. The Office of Financial and Insurance Services successfully combines all operations from the former Michigan Insurance Commission and the Financial Institutions Bureau, dramatically improving customer service. Additionally, as a result of Executive Order 2002-1, the Bureau of Workers' Compensation will be combined with the Unemployment Agency. This merger will support a seamless system of services to insure timely payment of benefits on behalf of workers and employers.

Competition. The Public Service Commission ensures that regulated energy, communication, and transportation services are provided in an efficient, reliable and safe manner. Working to expand options available to consumers, the Public Service Commission has successfully guided Michigan along the path of competition. Soon, all Michigan residents will be able to choose whether or not they want an alternative electric power or gas supplier. The Commission's commitment to helping Michigan residents navigate the new era of deregulated telecommunications is demonstrated through actions holding phone and cable companies accountable to their customers and taking a strong stance against unlawful practices. The Public Service Commission is at the forefront of the Governor's effort to make Michigan the leading state in the availability of high speed Internet access.

Reduced Cost to Businesses. Since 1991, revisions to Michigan's unemployment insurance laws have saved Michigan employers an estimated \$1 billion in state unemployment taxes. Concurrently, the unemployment system, which serves those who have lost their jobs, has built up a record \$3 billion in cash reserves. In addition, Michigan's new wage record system for determining jobless payments has reduced the time it takes for workers to receive their initial benefit check by up to three weeks. Checks can now be issued within a day or two of a jobless worker's certification.

Privatization. To address financial difficulties and internal inefficiencies, the Accident Fund of Michigan was successfully privatized in 1994 following a brief period of state control. Today, the privatized fund insures 26,000 businesses through independent agents, pays local property and state business taxes, and is a large supplier of private-sector jobs in the state.

In 1997, the Michigan Liquor Control Commission outsourced the warehousing and distribution of distilled spirits to privately owned businesses. This has improved customer service and made more resources available for licensing and enforcement efforts, including efforts to curb underage drinking. Over the last five years, efforts to combat alcohol sales to underage buyers have resulted in 4,766 citations against retail liquor licensees. Automated systems have improved services to suppliers, provided more selection to customers and increased revenue to the state. Recently, the Commission unveiled fast track licensing to enable eligible liquor licensees to transfer liquor licenses in less than 30 days. Since privatization, the Commission has contributed 30% more to the state's general fund, with a fiscal year 2001 deposit of over \$118.0 million.

*CIS
provides a
broad
array of
programs
and
services*

Response to Revenue Decline

The department is a prudent purchaser and steward of taxpayer's money. However, declining revenues have forced additional program reductions. Most recently, Executive Order 2001-9 reduced general fund support to the department by \$4.9 million, including eliminating the Nursing Home Quality Incentive Grant Program.

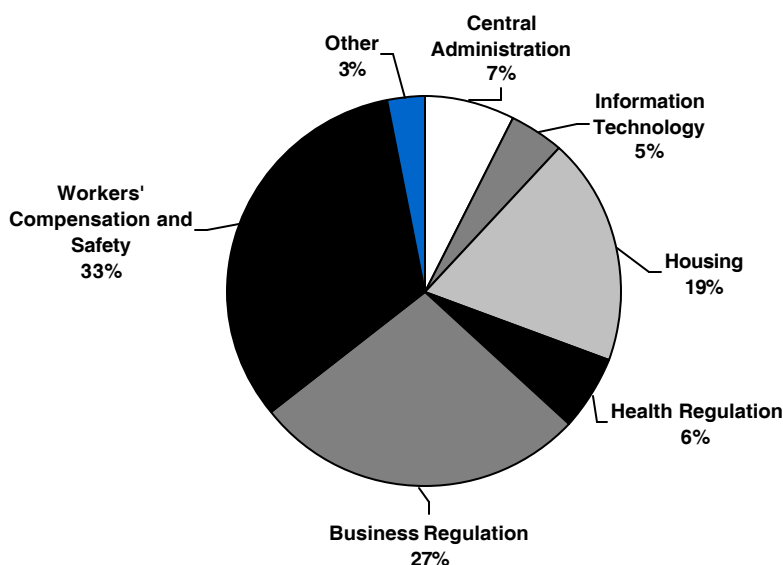
Summary of Fiscal Year 2003 Executive Budget

The Executive Budget includes a number of program enhancements funded with restricted revenues, including a \$6 million increase in Section 8 housing vouchers and an additional \$248,000 for nursing scholarships. The Section 8 voucher

increase will provide 1,500 additional low-income citizens with assistance with housing costs. The additional funding for nursing scholarships will help address a shortage of registered nurses. Funds will be distributed to nursing programs approved by the Michigan Board of Nursing.

To step up efforts to ensure safety for Michigan citizens, the Governor recommends additional funding in the elevator and boiler inspection programs of \$387,100 and \$611,500, respectively. This will allow for nine new inspectors and increase the number of elevator and boiler inspections.

Fiscal Year 2003 Spending by Category



Increased growth in southeast Michigan has spurred the need for more fire safety inspections. To ensure the optimum level of fire safety for occupants of regulated facilities, the Governor recommends \$287,700 to establish a new fire safety office to specifically serve the needs in southeast Michigan.

The Governor's recommendation also includes \$1.3 in additional federal unemployment insurance funds for administrative expenses and \$1.5 million in additional insurance regulatory fees to assist troubled insurance entities, including those that may be in supervision, conservatorship, rehabilitation or liquidation. In addition, the Governor's budget includes \$1.0 million in available consumer finance fees to fund triennial examinations of consumer lenders and investment advisors, including licensed mortgage brokers and registered investment advisors. Additionally, as a result of Executive Order 2002-1, the Governor recommends that the new Bureau of Workers' and Unemployment Compensation be supported with funding from the Michigan Employment Security Act Contingent Fund, saving \$9.8 million in corporation and securities funds.

The Executive Recommendation funds non-discretionary economic increases but, due to declining state revenues, the employee-related economic increases will be offset by reducing eleven positions in the department.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
To support public safety, increase the percentage of construction code plan reviews completed within 15 business days of receipt	90.2%	79.6%	85%	85%
To support public health and safety, reduce the number of days to respond to occupational health and safety complaints	22.6 days	18 days	15 days	15 days
To support public economic well being, increase the percentage of MIOSHA discrimination cases resolved within 90 days	57%	42%	66%	76%
To enhance the economic security of claimants, increase the percentage of magistrate and mediation hearings regarding wage replacement that are processed within 21 days of receipt	84%	82%	83%	83%
To support the safety of long-term residents, increase the number of long-term care facilities that had no safety-related non-compliance violations	16	18	19	20

Department of History, Arts and Libraries

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$59,936.4			\$68,635.9	\$64,609.1	\$62,675.3
All Funds	\$68,635.7			\$78,121.7	\$74,545.7	\$72,264.9
	% Change - GF/GP					-3.0%
	% Change - All Funds					-3.1%

KEY ISSUES

	GF/GP	All Funds
Transfers from Departments of Natural Resources, Consumer and Industry Services and State	\$461.8	\$461.8
Thunder Bay National Marine Sanctuary and Underwater Preserve	\$250.0	\$250.0
Renaissance Zone Reimbursement Funding Increase	\$243.2	\$243.2
Remove One-Time Arts Funding	(\$3,000.0)	(\$3,000.0)
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$14.4)	(\$42.2)
Economic Adjustments	\$479.8	\$487.1
Staff Reductions Needed to Pay for Employee Economics (3.2 FTE's)	(\$179.2)	(\$179.2)
Other Adjustments	<u>(\$175.0)</u>	<u>(\$501.5)</u>
Subtotal	(\$1,933.8)	(\$2,280.8)
FY 2003 Executive Recommendation	\$62,675.3	\$72,264.9

Department of History, Arts and Libraries

In 2001, the Governor and Michigan Legislature created the Michigan Department of History, Arts and Libraries by merging the responsibilities of the Mackinac Island State Park Commission, the Michigan Council for Arts and Cultural Affairs, the Michigan Film Office, the Michigan Historical Commission, the Michigan Historical Center and the Library of Michigan. The department's goal is to raise the status of state history, arts, culture and library programs by coordinating state efforts to preserve, promote and protect Michigan's heritage.

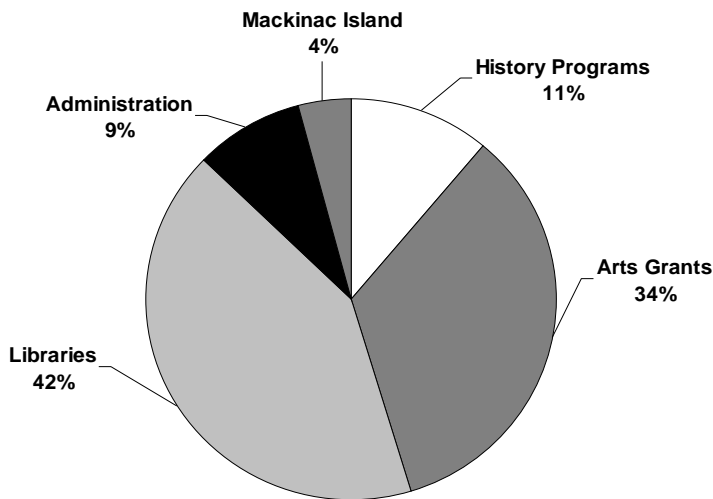
*The
department
funds
various
cultural
programs*

The Governor's fiscal year 2003 recommendation for the Department of History, Arts and Libraries is \$72.3 million, of which \$62.7 million is general fund.

Achievements of Engler Administration

The functions transferred to the Department of History, Arts and Libraries were not the primary missions of the departments from which they came. By elevating the status of these functions to a cabinet-level department, the Governor and Legislature have ensured that more focus is brought to Michigan's history and heritage, arts, culture and libraries.

Fiscal Year 2003 Spending by Category



The Department of History, Arts and Libraries exists to provide access to information and to promote the knowledge of history, the arts, and culture – elements that are fundamental to human enrichment and to a well-rounded education. The department also encourages the preservation of history, creation of art, and development of culture, making Michigan an even more interesting and desirable place in which to travel and live. Finally, the Governor's vision for the department is to provide good stewardship for Michigan's many historic sites, archives, and other cultural resources. The Department of History, Arts and Libraries is the central depository to protect and enrich these treasures.

Library of Michigan. The Library of Michigan offers all Michigan residents access to reliable, up-to-date information through AccessMichigan, a variety of databases over the Internet. Funded by the Library of Michigan and made accessible to all residents – from professional genealogical researchers to students needing homework assistance – the AccessMichigan databases are extensive and exhaustive. And with more than 10,000 e-book titles, the e-Michigan Library is never closed and books are always there.

Michigan Historical Center. Over two million people have viewed the Michigan Library and Historical Center since it first opened in 1989. In the early 1990's, the Governor recommended and the Legislature appropriated \$1.8 million with a challenge to the Michigan Historical Center Foundation to raise the remaining funds needed to complete *Michigan in the Twentieth Century* exhibits. The Foundation met the challenge and the exhibits opened in 1995.

In response to the U.S. Coast Guard's decision to surplus more than 70 Michigan lighthouses, the State Historic Preservation Office brought together state and federal government staff and members of the non-profit community to preserve the lighthouses. The results of this on-going project have included an unprecedented transfer agreement between the U.S. Coast Guard and the State of Michigan, grant funding to preserve lighthouses, and a lighthouse license plate.

In partnership with the Department of Natural Resources, the Michigan Historical Center restored the lighthouse at Fort Wilkins and the logging buildings at Hartwick Pines. The two sites are the most visited of the Michigan Historical Museum's ten sites, serving more than 650,000 visitors every year.

Mackinac Island State Park Commission. The Mackinac Island State Park Commission developed and implemented a comprehensive strategic plan to protect, preserve and present Mackinac's rich historic and natural resources and to provide outstanding educational and recreational experiences for the public. In order to carry out this strategic plan, the commission secured over \$16 million in grants and bond proceeds, over and above the regular legislative appropriations for ongoing operating costs.

"It (the Department of History, Arts and Libraries) provides a focus in state government that connects us to the past and future of who we are."

During the last decade, the Mackinac Island State Park Commission has opened seven major exhibitions to share the history of Mackinac. Several major public events were hosted including the Centennial Celebration

Craig Ruff, President, Public Sector Consultants, December 12, 2001

of the formation of Michigan's first state park and the reenactment of the Battle of 1814. Seventeen books, plus numerous shorter items, have been published to share Mackinac's story. The parks were made more accessible through winter openings and the installation of numerous physical improvements to meet the needs of persons with disabilities.

Michigan Film Office. In the 1990's, Michigan reestablished itself as a desirable location in the eyes of the film industry. Major motion picture studios regularly film within the state. The 1990's were an exciting time to see Michigan on the big screen, in hits such as: *Hoffa*, *Polish Wedding*, *Grosse Pointe Blank*, *Out of Sight*, *Hardball*, and *Escanaba in da Moonlight*. Fiscal year 2001 was a record year for feature films in Michigan, with a direct economic impact of nearly \$10 million. Not included in that amount is the substantial amount of commercial work done in Michigan, as well as documentaries and television programming.

Michigan Council for Arts and Cultural Affairs. Following a decade of continuous improvement in the grant process, in 2001 the Michigan Council for Arts and Cultural Affairs processed 25% more grant applications than the previous year and awarded 311 grants to organizations throughout the state. According to estimates compiled by the department, the number of beneficiaries of these grants has increased 250% in three years. Almost 60 million people have participated in person or through simulcast programs.

Response to Revenue Decline

Although a new department, History, Arts and Libraries is a prudent purchaser and steward of tax dollars. The department has accomplished numerous budgetary savings in fiscal year 2002 through Executive Order 2001-9. The department was able to reduce expenditures through various administrative efficiencies across the department. In addition, grants to the Detroit and Grand Rapids public libraries were cut in half, and one-time supplemental arts grants were reduced by \$500,000.

Summary of Fiscal Year 2003 Executive Budget

Included in the Governor's recommendation is \$250,000 for the first of a four-year commitment to the Thunder Bay National Marine Sanctuary and Underwater Preserve. This preserve, the first one to be so designated, was placed on a site evaluation list by the National Oceanic and Atmospheric Administration in 1983. The funding will be combined with federal funds in a joint effort to manage the collection of shipwrecks in the bottom lands of Thunder Bay.

The Executive Recommendation removes \$3 million in one-time funding for the arts which had been included in the fiscal year 2002 budget. The budget also provides for increased reimbursement to libraries located in Renaissance Zones (\$243,200) and funds non-discretionary economic increases. Three positions will be eliminated to pay for employee-related economics.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
To broaden knowledge about the history and heritage of the Mackinac Straits area, increase the number of visitors to the Mackinac State Historic Park	363,400	383,400	+ 2%	+ 4%
To encourage tourism and expose people to Michigan's geography and appearance through visual media, increase film production expenditures on location in Michigan				
Documentaries, feature films and television	\$1 million	\$10 million	+ 2%	+ 4%
Commercials	\$200 million	\$204 million	+ 3%	+ 5%
To enhance knowledge of Michigan history and heritage, increase the use of history resources				
Museum visits	164,600	172,800	+ 2%	+ 5%
Web site visits	1,246,000	1,345,600	+10%	+18%
To expand access to information, increase the number of visits and variety of resources in Michigan libraries				
Library of Michigan				
Physical visits	312,300	321,600	+ 3%	+ 6%
Virtual visits	889,900	1,023,300	+15%	+30%
Other public libraries – on-site use				
Virtual resources	10,197,100	10,530,000	+ 5%	+10%
Other resources	29,611,200	30,472,500	+ 2%	+ 3%
To enrich cultural life, increase the number of citizens accessing arts funded by the department				
Exhibit visitors and program attendees	30,227,500	59,090,900	+ 4%	+ 5%

Department of Corrections

(Amounts In Thousands)

Funding History*

	FY90			FY01	FY02	FY03
GF/GP	\$732,918.4			\$1,619,600.5	\$1,599,453.9	\$1,627,858.9
All Funds	\$758,134.0			\$1,703,858.4	\$1,686,754.4	\$1,713,462.5
		% Change - GF/GP			-1.2%	1.8%
		% Change - All Funds			-1.0%	1.6%

KEY ISSUES	GF/GP	All Funds
Annualized Savings From Executive Order 2001-9	(\$16,584.8)	(\$14,423.0)
Bed Opening Adjustments - Beds Opening On or Before October 2002	\$10,905.2	\$10,917.7
Bed Opening Adjustments - Beds Opening After October 2002	\$8,227.8	\$8,227.8
Prisoner Health Care Cost Adjustments	\$7,399.3	\$7,399.3
Various Operational Adjustments	\$1,569.3	(\$991.9)
Various Revenue Adjustments	\$1,890.4	\$190.0
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$357.8)	(\$363.9)
Economic Adjustments	\$17,153.8	\$17,550.3
Staff Reductions Needed To Pay For Employee Economics (Non-Institutional Staff -- 24.0 FTE's)	<u>(\$1,798.2)</u>	<u>(\$1,798.2)</u>
Subtotal	\$28,405.0	\$26,708.1
FY 2003 Executive Recommendation	\$1,627,858.9	\$1,713,462.5

*FY 2002 funding amounts assume \$4.5 million gross, \$0 GF/GP supplemental appropriations as recommended on November 6, 2001.

CORRECTIONS

Department of Corrections

The Department of Corrections plays a key role in promoting public safety for the residents of the State of Michigan by providing custody and care for incarcerated felons, recommending sentences to the courts, and maintaining oversight and supervision of parolees and felony probationers.

The Department of Corrections currently incarcerates over 47,000 convicted felons and supervises over 67,000 additional felony probationers and parolees in the community. Population projections indicate that a minimum of 1,800 additional prisoners will be incarcerated by October 2003. The governor's fiscal year 2003 recommendation of \$1.7 billion (\$1.6 billion general fund) will meet this vital public safety need.

Achievements of Engler Administration

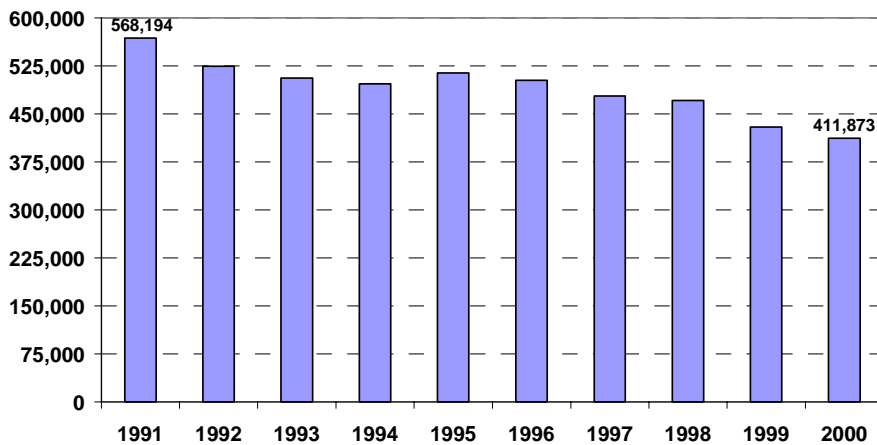
*Serious
crime has
dropped
28% since
1991*

Serious crime has dropped substantially during the last decade. The Michigan Uniform Crime Report details annual statistics on crime in Michigan. In 1991, index crimes (murder, rape, robbery, aggravated assault, burglary, larceny, motor vehicle theft, and arson) peaked at 568,194 offenses. The 2000 Uniform Crime Report shows a drop of 28% in these most serious offenses.

Since 1990, Governor Engler has supported the addition of over 15,000 new prison beds to meet Michigan's public safety needs. Incarceration trends since 1991 reflect the Administration's policies of locking up the toughest criminals for

longer periods and providing alternative community based sanctions for lower level offenders. In 1991, 57.9% of prisoners were serving time for assaultive offenses, with an average minimum prison term (excluding lifers) of 6.4 years. By 2000, 62% were serving time for assaultive offenses with an average minimum term of 8.0 years.

Serious Crime Has Declined



In 1995, the Michigan Sentencing Guidelines Commission was formed in order to establish standardized recommendations for legislative sentencing guidelines. Truth In Sentencing put an end to the good time credit system where prisoners could be paroled prior to serving their full sentence. Prisoners must now serve the full minimum term, plus any disciplinary time that they receive for misconduct while in prison.

Addressing serious crimes committed by juveniles has been an important priority of the Administration. The 450-bed Michigan Youth Correctional Facility in Baldwin has helped to address this problem. This unique public/private partnership houses male offenders under the age of 20 who have been convicted of serious offenses. The privately constructed and operated facility opened in July 1999.

"Another reason crime is down – the number of prisoners is up. And for this, I make no apologies. In Michigan, if you do the crime, you will do the time!"

Governor Engler, State of the State Address, January 1999

The Administration's policy to double-bunk available prison space has provided the most cost effective approach to address the bed space needs of the department. Since 1991, thousands of beds have been added to existing facilities through double-bunking. In 1999, the decision to double-bunk the St. Louis Correctional Facility added 622 beds. An additional \$30 million in construction costs was avoided by double-bunking that facility. During fiscal year 2002, the security level at Southern Michigan Correctional Facility will be adjusted and the facility will be double-bunked to add 600 beds. This change will save the state \$850,000 in annual operational costs. Since 1991, most of Michigan's correctional facilities (other than maximum security facilities), have added beds through double-bunking and have helped to minimize state costs.

In Michigan, prison is reserved for the state's worst criminals. The rise in the use of less costly options for less serious felons is reflected in felony disposition statistics. In 1991, there were over 37,000 total felony court dispositions with 32.1% of that group being sentenced to prison. In 1999, there were 38,000 felony dispositions with 25.7% going to prison. The Administration has worked closely with local law enforcement to provide less costly punishment options for lower level offenders. Community corrections grants, regional jail grants, and the county jail reimbursement program are examples of how the state and local governments have worked cooperatively to address the issue of making the punishment fit the crime.

Response to Revenue Decline

In order to address recent declines in state revenues, the department has focused on increasing the efficiency of its operations while protecting the safety of citizens and staff. As part of the completion of the fiscal year 2002 budget process, \$21 million in savings were identified. In order to protect the core mission of the department, pilot programs were discontinued. Efficiencies have been gained by consolidating correctional facility and academic/vocational accounts and by minimizing overtime costs. Three less efficient facilities were also closed as part of the solution for the completion of the 2002 budget.

In October 2002, with revenue forecasts continuing to fall, an Executive Order reduction was issued to rebalance the fiscal year 2002 budget. An additional \$54.9 million in reductions was identified in the Department of Corrections. Executive Order 2001-9 included the closing of three additional facilities. Other facilities will

be double bunked to provide the most cost effective use of available prison space. Additional operational efficiencies will be generated through regionalization of the department's fire safety program and consolidation of middle management positions in correctional facilities.

New state restricted revenue generated by Public Act 213 of 2001 will replace general fund support for the county jail reimbursement program in order to keep the total appropriation for this vital program intact. General fund support for parole and probation supervision will also be offset by an increase to the fees charged to probationers and parolees for this service.

Summary of Fiscal Year 2003 Executive Budget

The efficiencies identified in Executive Order 2001-9 will continue in fiscal year 2003, resulting in an additional \$16.5 million in general fund annualized savings.

"We are using prison better as a resource than we have in the past. Those going to prison now are exactly who should be there."

Washtenaw County Prosecutor Brian Mackie, Detroit News, July 6, 1999

In order to meet the challenges presented by fiscal year 2003 prisoner population projections, the department will make optimum use of existing physical plant space. At Camp Lehman and the former reception center at Riverside Correctional Facility, space will be double bunked to add 450 beds. A more efficient use of existing buildings at Camp Brighton and Crane Correctional Facility will add another 290 beds.

Funding that was added in fiscal year 2002 for the opening of drop-in housing units at Macomb and Saginaw Correctional Facilities will be carried forward into 2003 to be used for the opening of the 480 new beds at those two facilities.

Housing units at two facilities that are currently closed will reopen during the summer of 2003. Six hundred forty five (645) beds at the former Jackson Maximum Correctional Facility will be phased in from May through July 2003. At the Michigan Reformatory, 500 beds will be reopened in July and August 2003.

With the addition of beds to existing facilities in 2003, the Department of Corrections will be able to continue to fulfill its core mission to help protect Michigan's citizens from felons that prey on society. This budget insures that the department has the tools that it needs to protect public safety.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
In order to ensure public safety, reduce prison escapes to zero	7	5	0	0
In order to ensure public safety, maintain low rate of parole violators (rate of parole violator new sentences per 1,000 parolees)	88	87	83	83
In order to maintain a safe and secure prison environment, reduce the number of assaults against guards and inmates (rate per 100,000 prisoner days of incarceration)	5.0	4.6	4.4	4.4
In order to reduce prisoner idleness, insure that at least 90% of prisoners are engaged in productive out-of-cell activities	90%	92%	90%	90%

Department of State Police

(Amounts In Thousands)

Funding History*

	FY90			FY01	FY02	FY03
GF/GP	\$185,571.2			\$321,355.6	\$292,620.0	\$289,946.8
All Funds	\$235,121.3			\$427,858.3	\$411,783.8	\$416,444.6
	% Change - GF/GP				-8.9%	-0.9%
	% Change - All Funds				-3.8%	1.1%

KEY ISSUES

	GF/GP	All Funds
Statutory Fee Recommendations	\$0.0	\$3,050.0
Federal Revenue Adjustments	\$0.0	\$1,449.9
Fee Revenue Adjustments	\$0.0	\$3,305.3
Annualized Savings from Executive Order 2001-9	(\$1,603.8)	\$0.0
Interdepartmental/Intradepartmental Grant Adjustments	\$0.0	(\$2,087.0)
Motor Carrier Enforcement Adjustments	\$0.0	(\$322.5)
Remove Implementation Funding for Concealed Weapons	(\$1,000.0)	(\$1,000.0)
Remove Funding for City of Detroit Grant	(\$721.1)	(\$721.1)
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$184.6)	(\$206.8)
Economic Adjustments	\$4,188.8	\$4,545.5
Staff Reductions Needed to Pay for Employee Economics (40.0 FTE's)	(\$3,380.1)	(\$3,380.1)
Other Adjustments	<u>\$27.6</u>	<u>\$27.6</u>
Subtotal	(\$2,673.2)	\$4,660.8
FY 2003 Executive Recommendation	\$289,946.8	\$416,444.6

*FY 2002 funding amounts assume \$4.5 million gross, \$0 GF/GP, supplemental appropriations as recommended on November 6, 2001

Department of State Police

The Michigan Department of State Police began as a temporary, wartime emergency force to provide domestic security during World War I. In 1917, the Michigan State Troops Permanent Force, also known as the Michigan State Constabulary, was created consisting of five troops and 300 men. In 1919, the Constabulary was reorganized to become a permanent, peacetime Michigan State Police. Today, the Michigan State Police consists of a modern-day force of over 3,233 law enforcement professionals and support staff, using the latest up-to-date training and technology to protect the citizens of Michigan. What was once a cavalry of 300 men has now evolved into one of the leading police agencies of the United States.

The Governor's fiscal year 2003 recommendation for the Department of State Police reflects total funding of \$416.4 million, \$289.9 million general fund.

Achievements of Engler Administration

The development of computerized information technology has been a key to strategic law enforcement effectiveness. Several technological innovations have been implemented in the past decade.

- Michigan's Public Safety Communications System, a state-of-the-art 800 MHz communication system that provides the infrastructure for a statewide information highway, was established during the 1990's. The system is capable of transmitting voice messages and other critical law enforcement information instantaneously between the hundreds of public agencies comprising Michigan's criminal justice system.
- A Networked Automated Fingerprint Identification System which can receive digital fingerprint images transmitted from police agencies by electronic scanning devices at the time of arrest and booking was implemented. This system provides immediate positive identification, checks for a fingerprint match, and returns a criminal history record to the arresting agency.
- In 1996, the department linked to the Combined DNA Index System, a fully integrated local, state and national law enforcement system of DNA records. It utilizes technology to automate the comparison of unknown suspect DNA found at a crime scene with that of known offenders in a database.

"Expanding DNA profiling in Michigan has the potential to be the most significant advancement for crime solving this decade."

Governor John Engler, July 26, 2001

Other tools to help fight crime include a new state-of-the-art, high-tech forensic science laboratory that opened in April 2001. Law enforcement agencies across Michigan now have access to the latest techniques of DNA analysis. To protect the public and aid law enforcement, Michigan eliminated profiling backlogs and now collects DNA from all convicted felons.

Some of the technological advances available at the lab are lasers in latent fingerprint identification, robotics in toxicological analysis, and computerized image enhancement for fingerprints, tire tracks, and other kinds of impressions.

The Computer Crimes Unit was created in 2000 to work with local, federal and other state law enforcement agencies to address the emerging phenomenon of offenses involving computer technology.

In conjunction, an Internet Crimes Against Children Hotline has been established. A statewide toll-free School Violence Hotline was also established as an option to report threats of violence on school property and is another example of a tool to make our schools safer.

Since 1991, when Governor Engler first took office, 1,082 troopers have graduated from the Training Academy. Twelve new state police trooper schools have been funded resulting in more troopers to patrol our streets and highways, investigate crimes, and respond to emergencies.

10 Year Comparison of Serious Crimes		
	<u>1991</u>	<u>2000</u>
Murder	1,003	674
Rape	7,248	5,068
Robbery	22,574	13,512
Aggravated Assault	43,378	35,481
Burglary	109,368	69,073
Larceny/Theft	317,248	228,618
Motor Vehicle Theft	62,636	54,855
Arson	4,739	4,592
Total Index Crime	568,194	411,873

Serious crime in Michigan has dropped substantially during the last decade. Since 1991, the level of serious crime has dropped 28 percent to the lowest level in nearly 30 years. The department has worked diligently to partner with local, state, and federal agencies in an effort to develop a multi-disciplinary approach to reducing crime and improving public safety. This has resulted in greater coordination of responses to emergencies, disasters, arson and drug investigations, and anti-terrorism planning, as well as increased support for local training and communication services.

"The sharp drop in ... crimes over the past ten years is due in part to the increased level of cooperation between local, county, and state law enforcement agencies."

Col. Michael Robinson, Director of the Michigan State Police, September 24, 2001

In addition, the department is responsible for the annual inspection of all school buses operating within the state. With approximately 17,800 vehicles transporting 850,000 students over 10 million miles annually, the department remains committed to its comprehensive school bus inspection program.

Response to Revenue Decline

During the past year, state agencies were forced to reduce spending in order to bring expenditure levels in line with available funding. The Department of State Police reduced general fund spending by \$8.6 million over the past two fiscal years without compromising their core mission of protecting the citizens of Michigan. Reductions were achieved through operational efficiencies, staff

vacancy savings and by increasing fees for a number of services including fingerprint analysis, background checks, and private security/private detective licensure. In addition, assessments on civil infractions were increased to fund secondary road patrol grants to local sheriff departments. Beginning in fiscal year 2003, secondary road patrol grants to county sheriff departments will be 100% funded via restricted revenues, resulting in a general fund savings of \$1.6 million.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 budget recommendation continues the reductions implemented in fiscal year 2002. Legislative support is recommended to permanently adjust fees previously increased via Executive Order in fiscal year 2002. In addition, the Governor's budget includes \$1.4 million in federal revenues and \$3.3 million in fees to be used for anti-terrorism equipment, DNA processing and auto theft prevention grants. Available fee revenue will be used to administer the concealed weapons program, thus saving \$1.0 million general fund. An additional \$4.1 million general fund savings will be realized by eliminating a grant to the City of Detroit and through staff reductions to pay for salary and wage economics.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
To enhance public safety, increase the percentage of crimes solved	59%	60%	61%	63%
In order to reduce traffic fatalities on Michigan roads, increase the percent of motorists using safety belts	83.5%	85%	87%	88.5%
Reduce traffic fatalities (rate per 100 million vehicle miles traveled)	1.5	1.4	1.4	1.4
To improve crime solutions through DNA analysis, increase percentage of cases processed	89%	90%	94%	94%

Department of Military and Veterans Affairs

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$23,289.3			\$41,647.7	\$40,039.5	\$36,455.4
All Funds	\$56,890.9			\$100,963.5	\$100,268.0	\$107,837.5
% Change - GF/GP					-3.9%	-9.0%
% Change - All Funds					-0.7%	7.5%

KEY ISSUES	GF/GP	All Funds
Fully Restore Veterans' Service Organization Funding	\$891.6	\$891.6
Maintenance at State Training Sites and Armories	\$0.0	\$1,998.0
Increased Costs of Military Retirement	\$175.1	\$175.1
Medicaid Certification for Grand Rapids Veterans' Home	(\$5,000.0)	\$3,600.0
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$43.1)	(\$76.1)
Economic Adjustments	\$326.2	\$774.8
Staff Reductions Needed to Pay for Employee Economics (Non-Institutional Staff -- 0.5 FTE's)	(\$21.4)	(\$21.4)
Other Adjustments	<u>\$87.5</u>	<u>\$227.5</u>
Subtotal	(\$3,584.1)	\$7,569.5
FY 2003 Executive Recommendation	\$36,455.4	\$107,837.5

Department of Military and Veterans Affairs

The Department of Military and Veterans Affairs has dual missions: administration of state-regulated veterans' services, and military preparedness to assist both state and federal authorities. At the state level, the department's mission is to protect the lives and property of Michigan's citizens during times of natural disaster and civil unrest. At the federal level, the department's mission is to assist the federal government in defending the sovereign interests of the United States. Equally important is the department's responsibility for the supervision of the veterans' homes, administration of grant monies to veteran service organizations and oversight of the Michigan Veterans' Trust Fund.

In response to the September 11 terrorist attack, nearly 500 Michigan National Guard members and reservists have been called to active duty. To date, their efforts have included patrol of airports around the state and the U.S. – Canada

border, as well as the defense of select facilities throughout the state deemed critical to national security. Active duty status is fully funded by the federal government; therefore, the additional cost is not borne by state resources.

*"We're ... prepared to respond to any request.
That's just our job."*

**Staff Sgt. Christopher Stone, Lansing
State Journal, October 9, 2001**

The Governor's fiscal year 2003 recommendation for the Department of Military and Veterans Affairs totals \$107.8 million, \$36.5 million general fund.

Achievements of Engler Administration

At the beginning of Governor Engler's term, he promised to improve veterans' services in the state. The culmination of that promise was realized in 1992 when Executive Reorganization Order 1991-7 transferred both the Grand Rapids and Marquette Veterans' Homes from the Department of Public Health to the Department of Military Affairs. The veterans' homes date back to the Civil War, when the state established a home for veterans in Grand Rapids. Nearly a hundred years later, a second home in Marquette was established by the state. Both homes offer domiciliary, skilled and special needs care as well as a wide variety of social and therapeutic activities. As a result of an aggressive effort to attain full compliance with applicable state licensing requirements, staffing levels were increased and both homes have maintained all federal and state licensure standards since 1995. The Grand Rapids Veterans' Home is the largest long-term nursing facility in Michigan with a capacity of 755 beds, while the D.J. Jacobetti Veterans' Home provides Upper Peninsula veterans with 241 beds. The homes have been spared budget cuts during the Engler Administration in order to ensure continued levels of excellent care. The Governor's fiscal year 2003 budget continues that focus on excellence by recommending that the Grand Rapids home become fully certified to participate in the Medicaid program, with certification of the Jacobetti home to follow one year later.

The Michigan Veterans' Trust Fund provides a variety of services ranging from emergency grants for housing, utilities, food and medicine, to tuition grants for children of deceased or disabled veterans. For years, funds were borrowed from the Veterans' Trust Fund for other purposes. Fulfilling a campaign promise, Governor Engler worked with the Legislature to restore the Veterans' Trust Fund to its original \$50 million, and secured an amendment to the state Constitution protecting the assets of the Trust Fund for future generations of veterans and their families.

In 1999 the Governor, with the support of the Legislature, developed the Michigan National Guard Educational Assistance program for guard members. The program is a direct investment in the members of the National Guard, as better educated soldiers and airmen will better meet the future needs of the military. Support for the program since its inception totals \$6.6 million.



The Michigan Youth ChalleNGe Academy, created in 1999 and patterned after similar successful programs in other states, is part of a nationwide effort to make the National Guard a more active presence in the community through assistance to at-risk youth. The voluntary program has residential and community support components and is designed to redirect troubled youth toward productive citizenship. Since it began, \$3.2 million in general fund support has been provided for this program with approximately 375 youth having successfully graduated.

Response to Revenue Decline

During the past year, state agencies were forced to reduce spending in order to bring expenditure levels in line with available funding. The Department of Military and Veterans Affairs reduced spending by \$2.0 million over the past two fiscal years without compromising their core mission or adversely impacting the veterans' homes. Reductions were achieved through operational efficiencies, reduction of uncommitted tuition assistance resources and reduction of grants to veterans' service organizations.

Summary of Fiscal Year 2003 Executive Budget

Despite continuing revenue declines, the Governor's fiscal year 2003 budget recommends full restoration of funding for veterans' service organizations to the pre-Executive Order level of \$3.9 million, demonstrating an ongoing commitment to veterans' services. In addition, the Governor recommends an additional \$2.0 million in federal funds for construction projects and maintenance at state training sites and armories. Also recommended is an increase of \$175,100 for military retirement expenses and \$140,000 for anticipated increases in ChalleNGe grants and donations to the veterans' homes.

Efforts are currently underway at the Grand Rapids Veterans' Home to obtain certification as a Medicaid eligible long-term care facility, which will enable the institution to offset the cost of care for a portion of its population. The fiscal year 2003 recommendation provides additional spending authorization of \$3.6 million to support the effort to obtain and maintain Medicaid certification. A corresponding general fund savings of \$5.0 million is also budgeted. A fiscal year 2002 general fund supplemental of \$300,000 is recommended to cover partial year costs associated with acquiring Medicaid certification.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
In order to improve the skills of the Michigan National Guard, increase the percentage of Guard members who have some college education	44%	45%	46%	50%
In order to improve the future life skills and employment potential of high school dropouts: <ul style="list-style-type: none"> • Increase the percentage of cadets who successfully graduate from the Michigan Youth ChalleNGe Academy • Increase the percentage of ChalleNGe cadets who, upon graduation, are placed in jobs, educational programs, or the military 	68%	71%	72%	73%
	39%	60%	100%	100%
In order to protect veterans and family members residing in state-operated nursing facilities, ensure that beds are in compliance with state and federal licensing requirements	100%	100%	100%	100%

Judiciary

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$111,835.2			\$170,316.8	\$175,223.9	\$178,818.1
All Funds	\$153,347.0			\$236,914.0	\$241,449.9	\$246,587.9
		% Change - GF/GP			2.9%	2.1%
		% Change - All Funds			1.9%	2.1%

KEY ISSUES	GF/GP	All Funds
Federal Grant Adjustments	\$0.0	\$516.3
General Fund Reduction Due To Increased Court Fee Fund Revenues	(\$1,000.9)	\$0.0
Public Acts 251 - 258 of 2001 - Addition of 5 New Judgeships	563.7	563.7
Adjustments To Reflect End of 1997 Early Retirement Payouts	(\$76.6)	(\$76.6)
Economic Adjustments	\$4,793.4	\$4,820.0
Staff Reductions Needed To Pay For Employee Economics (9.0 FTE's)	<u>(\$685.4)</u>	<u>(\$685.4)</u>
Subtotal	\$3,594.2	\$5,138.0
FY 2003 Executive Recommendation	\$178,818.1	\$246,587.9

Judiciary

Michigan's Constitution vests the judicial power of the state exclusively in a court system composed of the Supreme Court, the Court of Appeals, the circuit court (which is the trial court of general jurisdiction, including the family court division), the probate court, and courts of limited jurisdiction such as the Court of Claims, district court and municipal courts. Further, the Constitution provides that the Supreme Court has general superintending control over all courts. The statewide court system is administered by the Justices through the State Court Administrative Office. Education and training for judges and court staff are provided through the Michigan Judicial Institute.

The fiscal year 2003 budget recommendation for the Judicial branch of government is \$246.6 million, of which \$178.8 million is general fund.

Achievements of the Last Decade

Trial court financing and organization were significantly changed in 1996. Public Act 374 of 1996 created the Court Equity Fund, which established a new formula for distributing money to the state's 83 counties. This act also transferred the Wayne County trial courts back to the City of Detroit and Wayne County, and created a five-year Hold Harmless Fund to gradually phase in the new funding formula for those locations. The final Hold Harmless payment will take place in fiscal year 2002, and the new formula will be fully implemented in 2003.

"Court reform is critically important to serving Michigan families better. It's yet another way of making sure government serves you, not burdens you."

Governor John Engler, State of the State Address, January 1996

Public Act 388 of 1996 created the Family Division within the Circuit Court and assigned all family-related functions to it, including domestic relations cases, adoptions, child abuse and neglect, juvenile delinquency, and other family-related legal matters. The Family Division allows courts to interact with families in a holistic and consistent manner. Since establishment, the Family Division has handled more than 428,000 cases, including divorce, child custody, and paternity cases.

The Supreme Court continues to seek ways to improve the delivery of justice, through demonstration projects to determine the impact of various administrative and organizational changes. Incentive grants have been awarded for 35 courts to implement a variety of organizational designs, technology innovations, and streamlined docket processes. Projects are evaluated for replication based on several factors including more timely completion of case processing, reduced costs, and increased public satisfaction with the court's performance.

Michigan's drug court program was established in 1999 to address substance abuse problems among nonviolent offenders. Early, continuous and intense judicially supervised programs are combined with mandatory drug testing to reduce criminal behavior and substance abuse. The state now operates 17 drug courts serving approximately 1,500 offenders. Nine additional drug courts are scheduled to be implemented in 2002.

Response to Revenue Decline

During the past year, state agencies were forced to reduce spending in order to bring expenditure levels in line with available funding. The Judiciary reduced general fund spending by nearly \$6.6 million over the past two years without compromising the operation of the statewide court system. Reductions were achieved through operational efficiencies, reductions in the Judicial Technology Improvement Fund and drug court program, as well as a reduction in Court Equity Fund support for local courts.

Summary of Fiscal Year 2003 Executive Budget

The Judiciary budget includes funding for judicial salaries, operational expenses of the Supreme Court and Court of Appeals, management assistance to local courts, operational expenses for local trial courts, and indigent defense legal assistance.

The fiscal year 2003 budget recommendations include a \$532,800 increase in federal grant funds to the State Court Administrative Office, and additional federal grant adjustments to the Community Dispute Resolution Program and the Appellate Public Defender Program. Increased district court civil filings and small claims court filings have resulted in a \$1.0 million revenue increase in the Court Fee Fund, saving the general fund an equal amount. Additionally, Public Acts 251 through 258 of 2001 have a net effect of creating five new judgeships in the state and the fiscal year 2003 recommendation provides \$563,700 to cover the cost associated with these positions.

In his January 2001 State of the State address, Governor Engler called for the creation of a cyber court for the purpose of promoting efficient arbitration between businesses. The legislature recently passed legislation to create the cyber court (P.A. 262 of 2001). The Michigan Supreme Court will draft procedural rules for the cyber court and will assign judges to serve on the cyber court for three-year terms. Cases will involve business-to-business civil actions. Court briefs and other documents will be filed on-line and oral arguments will occur via teleconference. The fiscal year 2003 recommendation includes \$1.0 million in support for the cyber court, contingent upon the receipt of anticipated Child Support Enforcement System refund revenue from the federal government. The fiscal year 2003 budget also includes a \$5.0 million appropriation for the Judicial Technology Improvement Fund, contingent on the same child support federal refund.

Construction of the new six-story Hall of Justice building is scheduled for completion in early fiscal year 2003. The Supreme Court, the Lansing branch of the Court of Appeals, the State Court Administrative Office, the Michigan Judicial Institute, and a learning center, will relocate from various offices in downtown Lansing to the approximately 280,000 square foot Hall of Justice. A rent adjustment is included in the fiscal year 2003 budget to support this move. The fiscal year 2003 recommendation also recommends the elimination of nine staff positions in order to fund employee economics.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
In order to provide timely access to justice, dispose of 80% to 90% of Supreme Court appeals within 290 days (Recognizes the American Bar Association standard for Supreme Courts that 50% of cases be disposed of within 290 days)	94%	90%	>80%	>80%
Achieve a case inventory in which 90% of the Court of Appeals cases are no more than 18 months old	84%	84%	85%	90%
In order to provide an alternative to costly litigation, increase the percentage of cases resolved through dispute resolution, retracting filed lawsuits	47%	57%	62%	65%
Keep recidivism rate for drug courts below 16%	8.5%	7%	<16%	<16%

Family Independence Agency

Funding History *

	FY90			FY01	FY02	FY03
GF/GP	\$1,866,434.2			\$1,216,438.3	\$1,175,780.8	\$1,208,450.7
All Funds	\$3,475,242.7			\$3,555,737.5	\$3,831,729.9	\$3,956,405.8
		% Change -GF/GP			-3.3%	2.8%
		% Change - All Funds			7.8%	3.3%

KEY ISSUES

	GF/GP	ALL FUNDS
Food Assistance Caseload and Reinvestment Increases	\$5,700.0	\$94,245.6
Family Independence Program Caseload Increase	\$0.0	\$60,233.2
Child Care Fund Utilization Increase	\$26,300.0	\$28,600.0
Adoption Subsidy Caseload Increase	\$9,782.1	\$26,581.5
Low Income Home Energy Assistance Grant Increase	\$0.0	\$18,947.4
State Emergency Relief Spending Increase	\$0.0	\$7,724.6
State Disability Assistance Caseload Increase	\$2,522.3	\$2,522.3
State Funds Needed to Match Federal Day Care Revenues	\$22,975.4	\$0.0
Adjust Foster Care to Expected Spending Level	(\$19,273.0)	(\$62,889.8)
Juvenile Justice Facility Savings	(\$5,424.0)	(\$11,069.0)
End TANF Spending on Homestead Property Tax Credit	\$0.0	(\$27,000.0)
Reductions Needed to Avoid Overspending TANF Grant	\$0.0	(\$20,000.0)
Annualize Partial Year Savings in Executive Order 2001-9	(\$4,976.9)	(\$11,856.0)
Adjust Child Support Program to Expected Spending Level	(\$2,683.3)	(\$7,892.0)
Adjust Fringe Benefit Account to Expected Spending Level	\$0.0	\$20,750.0
Other Fund Source Adjustments	(\$1,915.2)	\$0.0
Adjustment to Reflect End of 1997 Early Retirement Payouts	(\$1,002.0)	(\$2,218.8)
Economic Adjustments	\$2,470.9	\$7,694.3
Staff Reductions Needed to Pay for Employee Economics (Non-Institutional Staff -- 43.5 FTE's)	(\$2,865.6)	(\$2,865.6)
Other adjustments	<u>\$1,059.2</u>	<u>\$3,168.2</u>
Subtotal	\$32,669.9	\$124,675.9
FY 2003 Executive Recommendation	\$1,208,450.7	\$3,956,405.8

* FY02 funding amounts assume passage of supplemental appropriations of \$26.1 gross, \$20.0 GF/GP, recommended on November 6, 2001

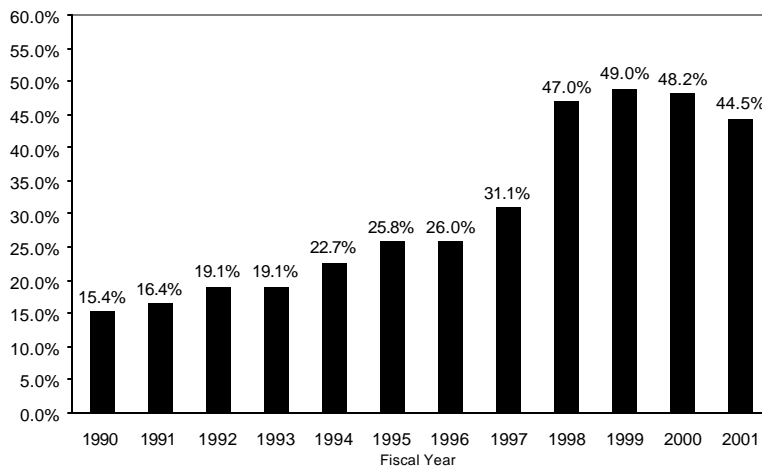
Family Independence Agency

The Family Independence Agency (FIA) assists individuals and families to meet financial, medical, and social needs; helps people move toward self-sufficiency; and works to prevent abuse, neglect, and exploitation of both children and adults. The fiscal year 2003 recommendation of \$3.96 billion, of which \$1.21 billion is general fund, will allow FIA to continue to focus resources on numerous service and financial programs to achieve this mission.

Achievements of Engler Administration

Welfare Reform. Since taking office in 1991, Governor Engler has focused on creating policies that strengthen families. These policies encourage independence, require work, involve communities, and reward responsible behavior.

FAMILY INDEPENDENCE PROGRAM
Percent of Cases Closed Due to Earned Income



In 1992, Michigan received a waiver from the federal government to reform its cash assistance program for families. The waiver strengthened incentives to encourage employment and expanded transitional child care and medical coverage for families leaving the welfare rolls. New policies which began in 1995 reduced or, if necessary, terminated grants for clients who did not participate in employment or training activities. Many policy changes have occurred since that time which complement the reforms made earlier in the

*Earned
income
closures
remain at
record
levels*

Administration. An increase in the number of working families has caused dramatic growth for child care and development programs. Since 1992, an increasing number of low-income families have used these programs to support their efforts to obtain and retain employment.

As a result of these reform policies, there have been reductions in welfare caseloads to levels not seen in 30 years and dramatic changes in spending priorities. From a peak of 229,300 cases in fiscal year 1993, the Family Independence Program now has 75,800 participating families – a drop of 67 percent. On the spending side, between 1995 and 2000 alone, spending on cash grants for poverty relief declined by \$775 million. Over that same period, however, spending on child day care, employment programs, health care, and other social services increased by \$2.9 billion – nearly four times the size of the decrease in cash grant poverty relief spending. These facts clearly display Governor Engler's success at shifting from programs that paid families to stay at home to programs that help families move from welfare to work.

Supporting and Protecting Children. Complementing welfare reform, the Engler Administration has initiated other policies to support and protect children while promoting and strengthening families.

Child support efforts have centered on improving services to families by increasing collections, increasing the establishment of paternity, and reducing out of wedlock births. A key success is exemplified in child support collections, which more than doubled from 1990 to 2001. Integral to all child support efforts has been the statewide implementation of the Child Support Enforcement System (CSES). With the help of all Michigan counties, the state has now successfully implemented a statewide integrated child support network that will improve child support collections and help more families remain financially independent.

"Like tax cuts, changing the state's welfare system is likely to be among Engler's most enduring accomplishments as Governor."

Detroit Free Press, January 16, 2002

Child protection efforts have centered on providing permanent and safe homes for children. Development, passage, and implementation of legislation supported by former Lieutenant Governor Binsfeld during the Engler Administration championed the concept of permanency for children in foster care. The legislation has resulted in children moving to permanent homes more quickly. Adoptions alone have increased by 140 percent since 1990.

Response to Revenue Decline

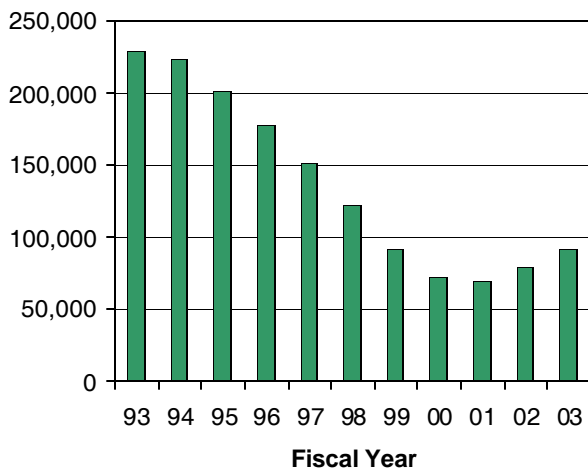
In response to declining state revenues, the Governor issued Executive Order 2001-9 in November, 2001. The Executive Order reduced fiscal year 2002 general fund appropriations for the Family Independence Agency by \$24.2 million. Reductions include staff savings resulting from the continuation of the state hiring freeze; reductions in training, rent, equipment purchases, and travel; and increased operating efficiencies. The Executive Order also included savings resulting from a decrease in the number of state operated juvenile justice beds at Genesee Valley Regional Center and W.J. Maxey Training School. These changes reflect the reduced demand for state treatment beds because juvenile crime is down and more delinquents are being served in community-based settings. Additional savings were achieved through reductions in indigent burial rates, reductions for non-energy home repairs, and reductions for certain contracts. Prior year work project funding for a finger-imaging system was eliminated, thus putting development of that system on hold.

As the economy has faltered, more families need temporary assistance from the state. The Governor recommends a \$20 million supplemental appropriation for the current year to fund expected caseload increases in the Family Independence Program.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 recommendation contains sufficient funding for FIA to achieve its mission and, most importantly, continue Governor Engler's focus of strengthening Michigan families. The major funding changes outlined below are primarily aimed at financing expected caseload levels and maintaining existing programs with available state and federal revenues.

Family Independence Program Caseload



The Family Independence Program is expected to increase in fiscal year 2003. The budget recommends funding for 92,100 cases, an increase from the current caseload of 75,800 (December 2001). An additional \$60.2 million in federal funding is recommended to finance this increase.

Child day care cases are expected to remain stable in fiscal year 2003, with 69,700 families receiving day care assistance. However, \$23 million in new state funds are recommended for the day care program to match available federal day care funding.

Welfare caseloads are beginning to increase

Other recommended caseload-based changes include:

- State Disability Assistance.** The State Disability Assistance caseload is expected to increase by 900 cases to 7,900 cases. This caseload increase will result in an additional cost for the state of \$2.5 million, all general fund.
- Foster Care and Child Care Fund Spending Shift.** The foster care program serves children who have been made wards of the state by county courts and also covers court wards eligible for federal foster care claims. The Child Care Fund serves children who have been classified as county wards by the courts. In fiscal year 2000, Wayne County initiated an effort to classify more children as county wards and to deliver services to these children through a community-based, managed care approach. As a result of this change, and similar smaller efforts in other counties, the cost of care continues to shift from the foster care appropriation to the Child Care Fund appropriation. This change, similar to a change made in the fiscal year 2002 budget, results in a recommended decline of \$62.9 million in the foster care account and a corresponding \$28.6 million increase in the Child Care Fund appropriation.
- Juvenile Justice Facilities.** The foster care and Child Care Fund spending shift also impacts state operated juvenile justice facilities. Because there are fewer wards of the state, the need for state operated detention and treatment beds has declined. Because of this reduced demand, a reduction of \$11.1 million (\$5.4 million general fund) is recommended.

- ***Adoption Subsidy Program.*** The department's efforts to find permanent homes for children in foster care continues to be successful. The adoption subsidy caseload is projected to increase 3,300 cases in fiscal year 2003, a one-year increase of nearly 16 percent. Additional funding of \$26.6 million (\$9.8 million general fund) is recommended to finance this caseload increase.
- ***State Emergency Relief.*** A \$7.7 million increase for the State Emergency Relief program will provide additional funding for energy-related home repairs, rent assistance, and other forms of emergency assistance.
- ***Food Assistance Program.*** The Food Assistance caseload is expected to increase by 47,300 cases to 374,700 households. This increase, which is funded entirely with federal funds, will result in an additional cost of \$88.5 million. Also recommended is \$5.7 million, all general fund, to pay federal sanctions and to invest in the program to minimize future penalties.
- ***Low Income Home Energy Assistance.*** Michigan is expecting to receive a sizeable increase in its federal Low Income Home Energy Assistance award. The additional \$18.9 million that is recommended in fiscal year 2003 represents nearly a 30 percent increase from the current year. These funds will support the home heating credit, energy-related crisis intervention payments, and weatherization activities that make homes more energy efficient.

Reductions of \$20 million are recommended in programs funded with federal Temporary Assistance for Needy Families (TANF) revenues to avoid overspending this crucial federal funding source and to ensure sufficient funding for core FIA programs. Areas impacted by these reductions include innovation grants, the fatherhood initiative, the Family Independence Program (FIP) clothing allowance, supplemental Community Services Block Grant funding, and before- and after-school programs. However, contingency appropriations are recommended to reinstate funding in these areas if Michigan receives a refund from the federal government for penalties related to implementation of the Child Support Enforcement System.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
Permanency will be achieved for children in the department's care <ul style="list-style-type: none"> The number of children adopted will increase by 7% each year The number of children in foster care longer than 24 months will be 20% or less of the total foster care population 80% of the children in foster care will be in a permanent placement within 12 months of their initial placement Increase the number of licensed foster homes to meet the needs of children in out-of-home placements 	2,775	2,900	3,100	3,300
	21%	20%	20%	20%
	56%	80%	80%	80%
	7,762	7,800	7,900	8,000
Safety and protection for children, adults, and communities <ul style="list-style-type: none"> Decrease the percentage of re-referrals for abuse and neglect cases to no more than 25% of the total abuse and neglect caseload At least 80% of juvenile justice youth under FIA supervision will remain free of a felony conviction for two years following release from a residential placement 	34%	25%	25%	25%
	77%	80%	80%	80%
Achieving self-sufficiency for Family Independence Program recipients <ul style="list-style-type: none"> Meet or exceed the federal Personal Responsibility Act employment targets: <ol style="list-style-type: none"> All Families Two-Parent Families <i>Note: The Federal law allows these statutory targets to be adjusted downward to reflect caseload declines. The targets reflected on this table for FY 2001, FY 2002 and FY 2003 have not been adjusted</i> Increase the percentage of Project Zero sites achieving 100% of targeted cases with earned income 	36.4%	45%	50%	50%
	61.7%	90%	90%	90%
	73%	81%	93%	100%
Performance management and program integrity <ul style="list-style-type: none"> Reduce the food stamp error rate 	13.09%	11.60%	10.60%	9.90%

Department of Community Health

(Amounts In Thousands)

Funding History*

	FY90			FY01	FY02	FY03
GF/GP	1,771,891.1			2,673,556.2	2,582,477.8	2,563,061.2
All Funds	3,308,981.9			8,550,942.9	8,742,178.5	9,155,663.9
	% Change - GF/GP				-3.4%	-0.8%
	% Change - All Funds				2.2%	4.7%

KEY ISSUES

	GF/GP	All Funds
Utilization/Inflation/Caseload Changes		
Medicaid	\$108,624.8	\$245,247.0
Mental Health/Substance Abuse	\$11,299.9	\$25,347.6
Adult Home Help	\$9,372.3	\$21,023.7
Children's Special Health Care Services	\$6,434.2	\$9,769.0
Medicaid Benefits Trust Fund Withdrawal Associated with Medicaid Base Increases	(\$135,731.2)	\$0.0
Federal Medical Assistance Program (FMAP) Rate Change	\$64,522.8	\$0.0
Medicaid Benefits Trust Fund Withdrawal Associated with FMAP costs	(\$64,522.8)	\$0.0
Medicaid - Special Financing	\$46,408.4	(\$78,170.8)
Medicaid Benefits Trust Fund Withdrawal Associated with Loss in Special Financing	(\$46,408.4)	\$0.0
MIFamily Plan	\$0.0	\$112,932.4
HMO Savings from Hospital DRG Rebased	(\$7,519.8)	(\$16,868.2)
Savings from Long-Term Care Initiative	(\$10,000.0)	(\$22,431.6)
Medicare Low-Income Drug Assistance Initiative and Medicaid Pharmacy Plus Waiver	\$0.0	\$94,999.3
Pharmacy Cost Increase for State Psychiatric Hospitals and Developmental Disabilities Centers	\$2,056.0	\$2,521.1
Bioterrorism	\$0.0	\$9,503.4
Fund Maternity Outpatient Medical Services (MOMS) Increase with Healthy Michigan Fund	\$0.0	\$6,000.0
Transfer Responsibility for School Health and Education Programs to School Aid	(\$3,180.0)	(\$3,180.0)
Transfer Substance Abuse Administrative Responsibility from Coordinating Agencies to Community Mental Health	(\$1,000.0)	(\$1,000.0)
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$432.0)	(\$1,017.8)
Economic Adjustments	\$4,013.1	\$5,189.4
Staff Reductions Needed to Pay for Employee Economics (Non-Institutional Staff -- 24.0 FTE's)	(\$1,503.3)	(\$1,503.3)
Other Adjustments	<u>(\$1,850.6)</u>	<u>\$5,124.2</u>
Subtotal	(\$19,416.6)	\$413,485.4
FY 2003 Executive Recommendation	\$2,563,061.2	\$9,155,663.9

* FY02 funding amounts assume passage of supplemental appropriations of \$216.5 million gross/\$21.8 million general fund as recommended on November 6, 2001.

Department of Community Health

*89% of
DCH
budget
funds
Medicaid,
including
physical
& mental
health
services*

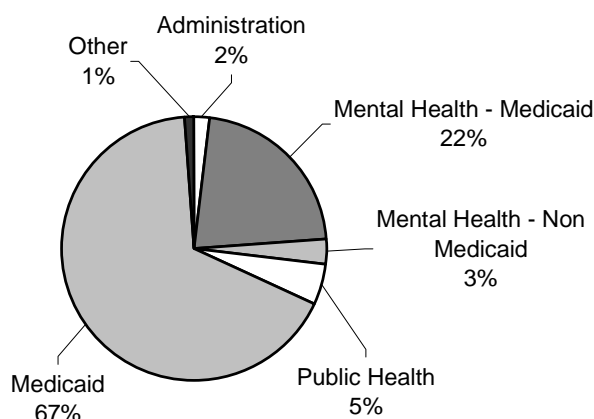
The Department of Community Health is responsible for health policy and management of the state's publicly-funded health services systems. These programs include Medicaid health coverage for persons with limited incomes, mental health services for people who have a mental illness or a developmental disability, services for individuals who need care for substance abuse, and services provided through local public health operations. The department also provides services to promote the independence and preserve the dignity of Michigan's older persons. Each year, an estimated 1.5 million Michigan residents receive services that are provided with total or partial support from the Department of Community Health.

The fiscal year 2003 Executive Recommendation for the Department of Community Health is \$9.2 billion, of which \$2.6 billion is general fund.

Achievements of Engler Administration

In 1996, Governor Engler created the Department of Community Health, combining the departments of Public Health and Mental Health, with the Medicaid program, into one cohesive department. Subsequent Executive Orders combined the Office of Services to the Aging and the Office of Drug Control Policy into this department. Consolidating these functions into one organization allows for greater coordination of health services, policy development, and fiscal management. A number of notable achievements have resulted from this consolidation.

Fiscal Year 2003 Spending by Category



Medicaid Managed Care – Physical and Mental Health.

In response to rising health care costs, Governor Engler converted the traditional Medicaid fee-for-service system into a more cost effective managed care system. Managed care was implemented for Medicaid physical health services in southeast Michigan in 1997, and for the entire state in 1998. Managed care for Medicaid mental health services was implemented in 1998.

Under the old fee-for-service Medicaid program, beneficiaries often did not have a physician of their own, and many consequently sought

routine medical care in hospital emergency rooms. Managed care has greatly improved consumer access and coordination of services because all beneficiaries have their own primary care physician. Managed care has received high marks from consumers. In the department's 2000 consumer satisfaction survey, 75 percent of respondents gave their primary care provider an 80 percent or higher approval rating. This compares to 72 percent of Medicaid fee-for-service

respondents and 74 percent in Michigan commercial insurance plans. In addition to improving consumer access and satisfaction, managed care has saved the state hundreds of millions of dollars by controlling the rate of cost increases, starting with an estimated savings of over \$100 million in the first full year of implementation and escalating to nearly \$150 million in fiscal year 2003.

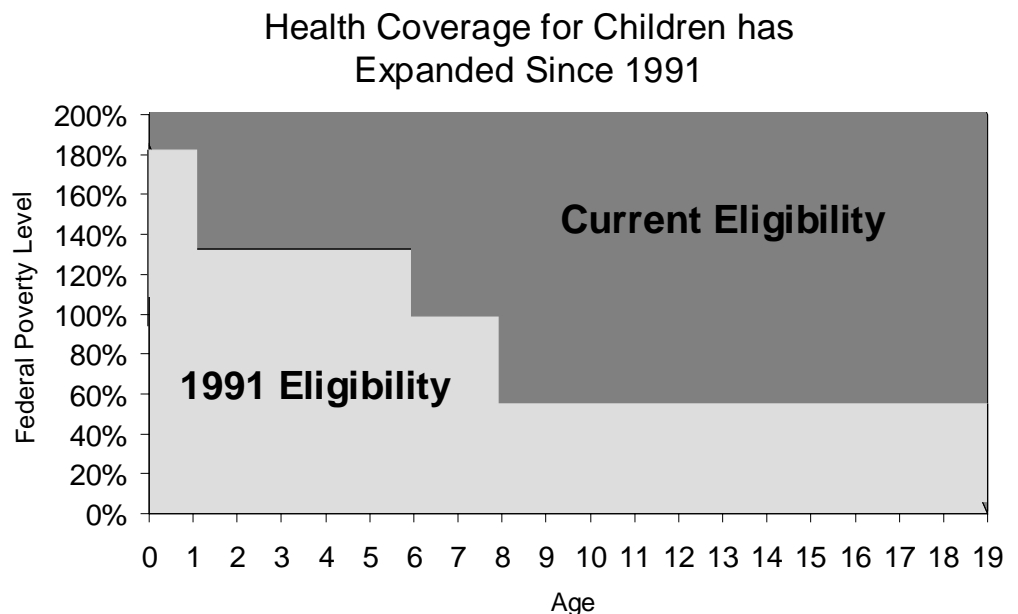
Michigan was the first state in the nation to combine three specialty populations (mental health, developmental disability, and substance abuse) under a single Medicaid managed care waiver program. The waiver allows Michigan to assure access and quality for consumers, while maintaining costs at reasonable levels. In 2002, the Department of Community Health will implement a new method for the selection of Specialty Prepaid Health Plans to more effectively and efficiently manage specialty care and comply with federal requirements under the waiver. In anticipation of this change, Community Mental Health Service Programs have been entering into regional affiliation arrangements by combining geographic service areas to serve a minimum 20,000 Medicaid beneficiaries each.

Children under 200% of poverty qualify for health care

Expansion of Health Care Coverage to Children. The availability of health care coverage for children has expanded greatly under Governor Engler's leadership. Prior to the Engler Administration, health coverage was only available to children at or below the federal poverty level, although very young children from families with somewhat higher

incomes could also qualify. Now, through innovative programs such as MICHild and the expansion of Healthy Kids, children whose family income is up to 200 percent of the federal poverty level can receive health care coverage through age 18. These programs make health care coverage available to virtually every low-income child in Michigan. In fact, Michigan is above

the national average when it comes to health care coverage for children. According to 2000 data collected by the United States Census Bureau, 11.6 percent of children lack health insurance nationally, compared to 6.7 percent of children in Michigan.



Movement of Mental Health Services from Institutions to Community. Over the past decade, Michigan's public mental health delivery system has continued to evolve from a state-directed and managed system of care to a network of Community Mental Health Service Programs. These community-based mental health agencies have the responsibility of managing the resources and directing services to meet the mental health needs of Michigan's residents. Treatment is concentrated in the community wherever possible, resulting in a reduction in the use of state facilities. At the end of fiscal year 1991, 3,230 persons were housed in state-operated psychiatric hospitals and developmental disabilities centers. At the end of fiscal year 2001, the number of hospital and center patients was just over 1,200, a decline of 63 percent. All savings have been redirected to Community Mental Health Service Programs for more appropriate community services, which are based upon person centered planning for each consumer. The long-standing policy of transferring resources and responsibility for mental health services to Community Mental Health Service Programs has enabled more individuals to receive necessary services. Michigan currently ranks third in the nation in mental health spending and the annual number of individuals served by Community Mental Health Service Programs has steadily increased, from 159,000 in 1991 to 205,000 in 2000.

Maximizing Federal Revenue. In fiscal year 1990, 17.5 percent of the state's general fund revenue was spent on the Medicaid program. A decade later, in fiscal year 2000, that figure had only grown by two percent, despite a 13 percent increase in recipients. For a period of time, the state was able to constrain its spending largely due to the creation of special financing partnerships with local units of government to help fund the Medicaid program. These partnerships have generated more than \$14 billion in federal funds since 1991, with the entire amount used to finance health care for low-income families and individuals. However, new federal rules have limited Michigan's ability to forge these partnerships in the current and future budget years. Even with the continued substantial reduction in federal funds, Michigan remains committed to adequate funding of the Medicaid program, which has nearly doubled in cost between fiscal years 1991 and 2003.

Response to Revenue Decline

In anticipation of the decline of state general fund revenues, the fiscal year 2002 enacted budget did not include rate increases for any Medicaid providers. It also included various cost containment strategies such as a mandatory hiring freeze and a budgetary savings requirement. In the Department of Community Health, budgetary savings of \$13.7 million general fund included elimination of new or one-time initiatives, reduction of funding for Medicaid outreach efforts, and a reduction to rural health awards. These strategies continue in fiscal year 2003.

In an effort to control rapidly increasing pharmaceutical costs, the fiscal year 2002 budget assumed savings of nearly \$43 million from reforms in the pharmacy system and gave the Department of Community Health unprecedented authority

to implement cost containment policies. The department's plan, the Michigan Pharmaceutical Best Practice Initiative, ensures that Medicaid beneficiaries will receive the best drugs available at the best price possible.

In addition, Executive Order 2001-9, implemented in the first quarter of fiscal year 2002, required the Department of Community Health to reduce expenditures by \$85.3 million general fund. Further reductions in programs funded by state restricted revenues totaled \$15.4 million. However, a large portion of the reduction in general fund support (\$60.0 million) was offset by increased special financing revenue, thus protecting and preserving critical health services. Programmatic reductions included a five percent funding cut for Graduate Medical Education, rebasing of hospital inpatient rates, reduction of nursing home and ambulance rates to fiscal year 2001 levels, and elimination of senior center equipment upgrades. Also included were elimination of several items such as special grants to rural hospitals, state funding for adolescent health centers, employee wellness programs, violence prevention activities, and the long-term care advisor media campaign. The annualization of these reductions is included in the fiscal year 2003 Executive Budget.

The number of Medicaid recipients is expected to decline as the economy recovers

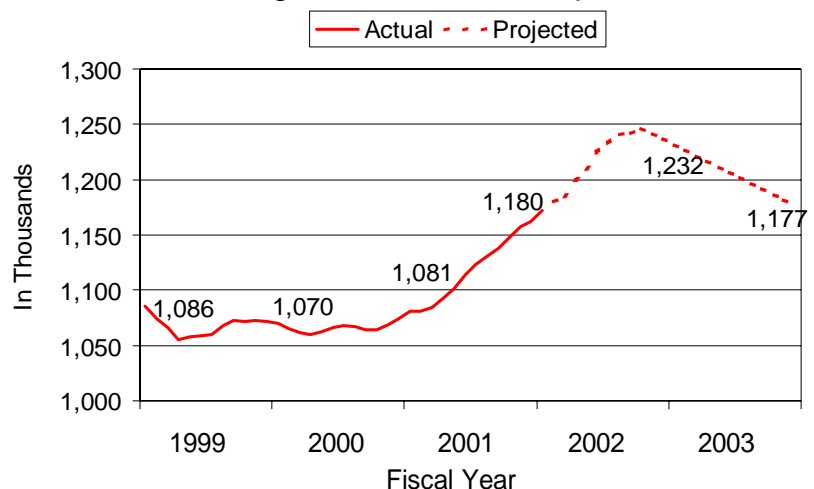
Despite recent revenue declines, the Governor recommended a fiscal year 2002 supplemental appropriation of \$50 million for hospitals and managed care plans to fund anticipated cost increases largely attributable to projected increases in the Medicaid caseload.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 Executive Budget recommendation is built on the assumption that the number of Medicaid recipients will continue to grow steadily through the third quarter of fiscal year 2002, then begin to slowly decline as the economy recovers. The fiscal year 2003 Executive Budget recommendation for Medicaid totals \$4.9 billion. This includes an increase of \$245.2 million for changes in utilization and caseload.

This year's Executive Recommendation provides over \$2.2 billion for mental health and substance abuse services, including a \$25.3 million increase for anticipated changes in the caseload. In order to facilitate the integration of mental health and substance abuse services, the recommendation transfers administrative oversight of substance abuse services from substance abuse coordinating agencies to Community Mental Health Service Programs, saving \$1.0 million.

Change in Medicaid Recipients



The Executive Recommendation includes an increase of \$112.9 million to finance a new initiative, the MIFamily Plan, which will provide health insurance to approximately 200,000 Michigan residents. The MIFamily Plan will utilize the program design flexibility given to states by the Bush Administration's Health Insurance Flexibility and Accountability federal waiver process. This flexibility will allow Michigan to earn additional federal funds through the more efficient use of state resources.

The Bush Administration also created two new initiatives called Medicare Low-Income Drug Assistance and Medicaid Pharmacy Plus Waiver. The Executive Budget recognizes additional federal funding related to these programs. As a result, funding for Michigan's Elder Prescription Insurance Coverage program (EPIC) will increase from \$50 million to \$145 million for fiscal year 2003. EPIC, implemented in fiscal year 2002, provides prescription drug benefits for senior citizens who are 65 years of age or older, with household incomes at or below 200 percent of poverty. It is anticipated this augmented funding will allow EPIC to cover an additional 50,000 senior citizens.

The Executive Budget also provides a total of \$30.8 million in utilization and caseload increases for Children's Special Health Care Services and Adult Home Help.

Several savings items have been budgeted as well. A Long Term Care Initiative aimed at assuring a patient's needs are met in the most appropriate setting will save \$22.4 million. Quality of care will continue to be a priority. Financial responsibility for the provision of a school health education curriculum has been transferred from the Department of Community Health budget to the School Aid budget, saving \$3.2 million. Finally, cost reductions related to the rebasing of hospital inpatient payment rates have been recognized in the Health Plan Services line item, generating a savings of \$16.9 million.

This recommendation eliminates 24 positions in the Department of Community Health to offset the cost of employee economic increases related to a two percent pay increase approved by the Civil Service Commission. Economic increases for staff in state psychiatric hospitals and developmental disabilities centers are fully funded and institutional staff are exempt from the required staffing reduction.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
Reduce the percent of Michigan children (0 to 17 years) who are uninsured	6.7%	-0.1%	-0.1%	-0.1%
Increase lead poisoning testing of Medicaid children ages 0 to 6 by 5% annually to identify those requiring treatment	19.5%	+ 5.0%	+ 5.0%	+5.0%
Increase the percentage of children receiving a full set of immunizations by 5% annually to reduce childhood diseases	73.7%	+ 5.0%	+5.0%	+5.0%
Reduce infant mortality (rate per 1,000 live births)	8.2	-0.1	-0.1	-0.1
Improve the long-term health of citizens by reducing the percentage of smokers by 1% annually:				
Adults	24%	-1.0%	-1.0%	-1.0%
Teenagers (data updated every 2 years)	34% (1999)	27.6%	-1.0%	-1.0%
Improve the lives and futures of young girls by reducing pregnancies among 15 to 17 year olds (rate per 1,000 population)	37.2	33.7	-3.5	-3.5
Reduce out-of-wedlock births as a percent of total births by ½% annually	33.9%	33.5%	-0.5%	-0.5%

Department of Agriculture

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$45,472.0			\$51,794.6	\$41,396.0	\$40,801.0
All Funds	\$70,589.9			\$112,618.0	\$98,571.1	\$97,454.3
		% Change - GF/GP			-20.1%	-1.4%
		% Change - All Funds			-12.5%	-1.1%

KEY ISSUES	GF/GP	All Funds
Micro Biological Data Program for USDA Monitoring	\$0.0	\$630.0
Laboratory Services Adjustments	(\$30.0)	\$300.0
Michigan State Fair Revenue Adjustment	\$0.0	(\$900.0)
Agriculture Equine Industry Development Fund Adjustment	\$0.0	(\$786.6)
Market Development and Fee Adjustments	(\$500.0)	(\$325.0)
U. P. State Fair - Elimination of General Fund Support	(\$167.9)	(\$167.9)
Various Other Revenue Adjustments	\$0.0	(\$36.7)
Adjustment to Reflect End of 1997 Early Retirement Payouts	(\$109.4)	(\$123.4)
Economic Adjustments	\$734.5	\$815.0
Staff Reductions Needed to Pay for Employee Economics (9.0 FTE's)	<u>\$522.2</u>	<u>\$522.2</u>
Subtotal	(\$595.0)	(\$1,116.8)
FY 2003 Executive Recommendation	\$40,801.0	\$97,454.3

Department of Agriculture

The Michigan Department of Agriculture provides services to the Michigan food and agriculture community through a variety of food safety,

environmental protection, and animal and plant health programs. Under the leadership of

Governor Engler, Michigan has been recognized as a national leader in developing and expanding markets for the state's agriculture industry.

Agriculture is Michigan's second largest industry and the state continues to be ranked #1 nationally in the production of many agricultural products.

The fiscal year 2003 recommendation for the Department of Agriculture totals \$97.5 million gross, of which \$ 40.8 million is general fund.

Achievements of Engler Administration

Since 1991, the Engler Administration has strengthened its commitment to providing a safe food supply while continuing Michigan's strong tradition of support for the agriculture industry and environmental stewardship.

After two years of effort by the Department of Agriculture and a coalition of agencies, public health officials, food industry representatives, consumers, and university researchers, the Food Law of 2000 was enacted which modernized,

standardized and consolidated Michigan's food laws, while adopting the federal Food and Drug Administration's 1999 Food Code as a uniform regulatory standard for retail food establishments, including restaurants and grocery stores.

"The Food Law of 2000 was one of the most important initiatives we have worked on in our 100-year history.... It eliminated wasteful duplication, bolstered food safety initiatives, addressed consumer concerns and made our food laws easier to follow."

Linda Gobler, President of the Michigan Grocers Association, November 2000

Enhancing value-added agricultural opportunities has been a high priority of the Administration in order to develop and expand both the domestic and foreign markets for Michigan-grown or processed commodities. In 2000, ten Renaissance Zones were authorized and specifically targeted toward agriculture and food processing markets. Thanks to

the foresight of the Governor and Legislature, the Julian-Stille Value Added Agriculture Development Act was recently enacted, establishing a fund for agricultural industry development projects. Because of this act and its structure, Michigan will be able to fairly and effectively allocate money recently received from the federal government for specialty crop enhancement programs. State financial assistance for value-added processing opportunities has included \$4.8 million for an ethanol plant at Caro, \$900,000 for a turkey growers' processing

plant in Wyoming, and a zero-interest loan of \$5.0 million for sugar beet processing operations in the Saginaw area. All of these efforts have retained or created jobs in the agriculture industry.

The Michigan Right to Farm law is one of the strongest in the country and serves as a national model. The law recognizes the importance of a farmer's right to farm while promoting sound environmental stewardship. Michigan farmers receive protection from odor and noise-related lawsuits by following a series of scientifically-based Generally Accepted Agricultural Management Practices, which are reviewed and updated annually.

Under the leadership of Governor Engler, a comprehensive, results driven program entitled the Michigan Agriculture Environmental Assurance Program (MAEAP) was created to ensure farmers are complying with all state and federal environmental regulations. It is specifically tailored to prevent agriculture-related pollution while simultaneously insuring strong farmer participation. Farmers receive education, technical assistance, environmental risk assessments and action plans that are farm specific.

As a result of amendments to the Farmland and Open Space Preservation Act (P.A. 421 of 2000), Michigan farmers can enter into Development Rights Agreements with the state whereby farmland remains in agricultural use for at least 10 years in return for a tax credit. The state currently holds more than 50,000 farmland agreements, preserving over 4.3 million acres of farmland, representing more than 40 percent of Michigan's agricultural land. Michigan leads the nation in the number of protected open spaces. In 1995, Michigan began offering an alternative method for protecting farmland by purchasing the development rights to selected parcels of land across the state. These rights are purchased in perpetuity with ownership conveyed to the state; an agricultural conservation easement is placed on the land, permanently restricting any non-agricultural development. Michigan now has acquired 56 development rights easements protecting more than 13,600 acres of prime farmland.

"This law [Farmland and Open Space Preservation Act] is the first step in a long line of things that I think are needed to save agriculture land use in the state of Michigan."

Tom Cooper, Owner and Operator of Rocky Top Farms in Antrim County, Harbor Beach Times, January 23, 2001

In November 1994, a white tail deer killed in Alpena County was diagnosed with bovine tuberculosis (TB). Since wild deer and livestock often feed in the same areas, a cattle and wildlife testing program was immediately developed and launched. To date, more than 870,000 TB tests have been conducted on animals statewide. In the summer of 2001, the department completed testing of nearly 3,200 dairy herds in the state, representing more than 500,000 animals. No disease has been identified outside of the original four-county high risk area. The Department of Agriculture will now complete testing of all beef cattle herds during 2002 and 2003. As a result of strong cooperative efforts of state and federal agencies, industry and private veterinarians, Michigan is poised to obtain a split-

"In a pure and unadulterated piece of good news for the dairy industry, the completion of bovine tuberculosis testing was announced Monday along with a clean bill of health for state herds."

Coldwater Daily Reporter, June 26, 2001

state status bovine TB designation from the U.S. Department of Agriculture. In order to accomplish this goal, Michigan has established three distinct zone designations within the state to better target its eradication efforts in the small core area where TB has been found and to help livestock producers more readily market their animals to other states. The fiscal year 2003 budget contains \$3.5 million for the bovine tuberculosis eradication program, bringing total bovine TB funding to \$22.3 million.

Response to Revenue Decline

During the past year, state agencies were forced to reduce spending in order to bring expenditure levels in line with available funding. The Department of Agriculture reduced spending by \$2.6 million over the past two fiscal years through administrative and operational efficiencies, and funding shifts to available restricted funds. Programmatic reductions involved decreases to a variety of grant programs including support for local soil conservation districts, migrant labor housing, export marketing, and a reduction in one-time support for the ethanol plant.

Despite these reductions, the department was able to maintain its core responsibilities of ensuring a safe, wholesome food supply; maintaining economic viability of the state's food and agriculture industry; promoting sound environmental stewardship; and protecting consumers from unhealthy or unsafe products, economic fraud or deception.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 budget recommendation provides an additional \$1.1 million in federal support for use in monitoring pesticide residue levels, and microbiological data for the U. S. Department of Agriculture. In 2001, the Agriculture Pollution Prevention Fund was created (P.A. 176 of 2001) enabling the department to enter into easement agreements with Michigan farmers to implement conservation practices on their land while enhancing environmental stewardship efforts. No revenues have been received yet to support this effort. However, the fiscal year 2003 budget recommendation establishes a budgetary mechanism so that the program can begin as soon as revenue becomes available.

Funding for the Michigan State Fair has been reduced by \$900,000 to reflect continued operational savings resulting from the lease agreement with a private development group overseeing management of the Michigan State Fairgrounds. General fund support for the Upper Peninsula State Fair has been reduced \$167,900, which finalizes a multi-year effort to move the entity to full self-sufficiency. Additional operational efficiencies in Market Development will yield \$325,000 in general fund savings, and \$175,000 in available restricted fund revenue allows for capture of an equivalent amount in savings to the general fund.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
Ensure consumer protection by increasing the percentage of gasoline meeting quality standards	85%	87%	89%	91%
Reduce the number of food-borne illnesses by approximately 4% per year as a result of licensing and inspection activities	2,600	2,400	2,300	2,200
In order to eradicate bovine tuberculosis, test all livestock in the state by fiscal year 2003	150,000 12.5%	600,000 50%	900,000 75%	1,200,000 100%
Increase the acres of nursery stock inspected and certified for commerce	12,300 acres	13,400 acres	14,700 acres	15,600 acres

Department of Environmental Quality

(Amounts In Thousands)

Funding History*

	FY90			FY01	FY02	FY03
GF/GP	\$95,657.7			\$99,406.6	\$83,613.7	\$74,660.1
All Funds	\$160,084.7			\$499,409.2	\$473,028.3	\$404,825.6
	% Change - GF/GP				-15.9%	-10.7%
	% Change - All Funds				-5.3%	-14.4%

KEY ISSUES	GF/GP	All Funds
Municipal Landfill Match Grants	\$0.0	\$2,000.0
Orphan Well Program Increase	\$0.0	\$682.7
Wellhead Protection, Compliance and Permits Program Increases	\$0.0	\$480.0
Oil and Gas Inspections Increase	\$0.0	\$144.0
Hazardous Waste User Fee - Administration Costs	\$0.0	\$130.0
Adjustment to Reflect Anticipated Revenues	\$0.0	(\$5,513.2)
Replace General Fund with Environmental Response Fund Revenue	(\$8,500.0)	\$0.0
Clean Michigan Initiative Administration Revenue Adjustments	(\$458.3)	(\$47.5)
Annualized Savings From Executive Order 2001-9	(\$22.5)	(\$22.5)
Remove Clean Michigan Initiative One-Time Funding	\$0.0	(\$61,014.0)
Remove Other One-Time Funding	\$0.0	(\$200.0)
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$216.0)	(\$280.2)
Economic Adjustments	\$1,069.6	\$2,135.2
Staff Reductions Needed to Pay For Employee Economics (12.0 FTE's)	(\$747.0)	(\$747.0)
Other Adjustments	(\$79.4)	(\$5,950.2)
Subtotal	(\$8,953.6)	(\$68,202.7)
FY 2003 Executive Recommendation	\$74,660.1	\$404,825.6

* FY02 funding amounts assume \$15.0 gross, \$0 GF/FP, included in supplemental appropriations recommended on November 6, 2001

Department of Environmental Quality

The Department of Environmental Quality is committed to restoring and enhancing Michigan's environment for the protection of public health and the preservation of our natural resources. Acting as chief steward for air, land, and water quality, the department focuses on environmental monitoring, permitting, enforcement, and innovative partnerships that add to the quality of life enjoyed by residents and visitors alike.

The Governor's fiscal year 2003 budget recommendation provides total funding of \$404.8 million, of which \$74.7 million is general fund.

Achievements of Engler Administration

Early in his Administration, Governor Engler announced that a Michigan mercury reduction strategy would be developed. Through implementation of subsequent task force recommendations, significant accomplishments have helped reduce mercury in the Michigan environment including adoption of some of the strictest standards in the nation for mercury controls from hospital/medical/infectious waste incinerators, the elimination of bulk mercury from dental offices, and phasing out the use of mercury in autos.

In order to further improve the management of environmental issues, in 1995, Governor Engler separated the environmental regulatory duties from the state's resource management responsibilities with the creation of the Department of Environmental Quality (DEQ). This separation of duties has benefited both the resource management and environmental regulatory programs of the state, by allowing separate cabinet level agencies to focus more sharply on each mission. The Governor's action elevated environmental issues within the Administration, provided clearer lines of accountability for environmental decision-making, and resulted in greater effectiveness in administering programs.

Environmental enforcement under the Department of Environmental Quality is more vigorous and innovative than ever before. Increased caseloads, reasonable settlements, and modern police work are all representative of the agency's enforcement successes. Additional resources have been devoted to wetlands enforcement in recent years, and the department's surface water enforcement team has compiled an impressive record since 1991, amassing over \$48 million in fines, penalties, supplemental projects and natural resources damage settlements.

"Brownfield redevelopment is one of the most exciting and creative environmental cleanup tools and powerful policies to come out of state and federal government in decades."

Traverse City Record-Eagle, December 14, 2001

Amendments to Michigan's environmental cleanup law eliminated the barriers to redeveloping abandoned, contaminated properties - called "brownfields" - by bringing common sense, fairness and certainty to the process. Prior to these 1995 statutory changes, the purchaser assumed

liability for all existing contamination. Michigan now has a true “polluter pay” law that holds responsible parties liable for contamination that they cause, but does not saddle innocent parties with the burden of liability. These changes have provided a tremendous incentive for redevelopment, generating \$3.5 billion in private investment through 2001.

The Department of Environmental Quality approved a 5-year pollution prevention strategy in 1996. Deemed a proactive approach to environmental protection, the positive fruits of this strategy are evident throughout Michigan in terms of an improved environmental ethic within the regulated community, and in measurable results as demonstrated in annual Toxic Release Inventory reporting. Michigan state government’s voluntary completion of the federal “Green Lights” program in 2000 resulted in savings of \$1.7 million in energy usage and annual reductions into the atmosphere of two pounds of mercury, 52.7 million pounds of carbon dioxide and more than 568,000 pounds of sulfur dioxide.

“ . . . the DEQ has a record of inspecting streams, monitoring violator farms and responding to complaints.”

Grand Rapids Press, September 2, 2001

Improving our lakes and rivers has been among the Administration’s top priorities during the past decade.

Water quality is a large component of the 1998 Clean Michigan Initiative environmental bond, with about \$165 million dedicated to water protection and enhancement. Areas of funding include nonpoint source pollution, dredging of contaminated sediments, and water monitoring. The department also works closely with communities to eliminate untreated sewage discharges, and maintains active permitting and enforcement programs.

Michigan’s air quality has shown significant improvement over the last 10 years as pollution sources have been identified and solutions implemented. The entire state came into compliance with all federal air standards in 1999 when southeastern Michigan was designated as being in attainment for carbon monoxide standards, one of the six criteria pollutants defined in the Clean Air Act.

Aquatic nuisance species have plagued Michigan’s waters for many decades. Michigan is now second in the nation to have an exotic species state management plan approved by the U.S. Fish and Wildlife Service. Our state’s plan for management of these pests has resulted in substantial policy, research, and educational efforts to control the introduction and spread of exotic species in the state.

Response to Revenue Decline

During the past year, state agencies were forced to reduce spending in order to bring expenditure levels in line with available funding. The Department of Environmental Quality reduced general fund spending by \$20.0 million over the past two fiscal years, but was able to increase funding from restricted revenue sources by \$16.7 million in order to protect critical environmental programs.

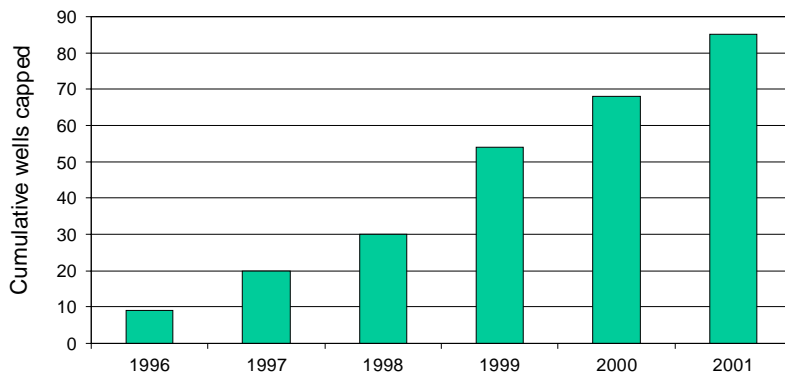
Spending reductions were achieved through operational efficiencies, vacancy savings, reductions to voluntary water monitoring programs and waste water grants, and termination of the medical waste program. Legislative support is requested to repeal the medical waste program.

Summary of Fiscal Year 2003 Executive Budget

The Governor's recommendation continues all spending reductions and corresponding restricted revenue increases embodied in Executive Order 2001-9. In addition, the Governor recommends that an additional \$8.5 million in general

fund support for environmental programs be replaced, on a one-time basis, with available Environmental Response Fund revenue. The Governor's fiscal year 2003 budget provides increased federal support of \$300,000 to fund additional grants in the Water Pollution Control program, and \$180,000 for further development of the statewide groundwater database. A funding increase of \$2.0 million in restricted revenue is recommended for the Municipal Landfill Match Grants Program and \$683,000 is also recommended to

Number of Abandoned Oil and Gas Wells Capped



continue the department's efforts to cap abandoned or improperly closed oil or gas wells. In addition, a restricted fund increase of \$144,000 will support additional oil and gas inspections of active wells.

*Oil and gas
producer
fees
support
efforts to
cap wells*

With a new fee system for the Hazardous Waste Management Program scheduled to take effect in October of 2002, the Governor's recommendation includes \$130,000 in restricted fund support to administer the new fee system. A shift to Clean Michigan Initiative support of \$458,000 for administrative activities will allow the general fund budget to be reduced by an equivalent amount.

The fiscal year 2003 recommendation also funds non-discretionary economic costs, including additional rent funding to support the department's move to its new headquarters in Constitution Hall. Twelve staff positions are eliminated to fund employee economics.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
To prevent release of hazardous substances into the environment, increase the percent of cleaned Leaking Underground Storage Tank sites versus contaminated sites	51%	51%	55%	56%
To promote urban renewal and economic development opportunities <ul style="list-style-type: none"> • Increase the cumulative financial investments in brownfield properties • Increase the cumulative number of jobs created at brownfield sites 	\$1.8 billion 8,200	\$3.5 billion 9,600	\$4.5 billion 11,000	\$5.0 billion 12,000
To protect surface water bodies against toxic pollution from industry, reduce the amount of chemical toxins released into bodies of water per year	930,000 lbs.	889,000 lbs.	849,000 lbs.	808,000 lbs.
To safeguard against the release of toxic emissions into the air from industry, reduce air emissions from major pollutant sources per year	33.5 million lbs.	29.2 million lbs.	25.0 million lbs.	21.0 million lbs.

Department of Natural Resources

(Amounts In Thousands)

Funding History*

	FY90			FY01	FY02	FY03
GF/GP	\$45,238.8			\$51,624.8	\$45,313.1	\$45,549.1
All Funds	\$152,911.3			\$279,894.2	\$288,700.8	\$254,418.4
		% Change - GF/GP			-12.2%	0.5%
		% Change - All Funds			3.1%	-11.9%

KEY ISSUES	GF/GP	All Funds
Bovine Tuberculosis Surveillance and Management Costs	\$2,000.0	\$2,000.0
State Parks - Legislatively Mandated CPI Increase (MCL 324.74109)	\$406.8	\$607.3
State Park Improvement Revenue Bond - Debt Service	\$0.0	\$1,200.0
State Park and Recreational Boating Inflationary Increase	\$0.0	\$838.5
Hunter Education - Federal Funding Increase	\$0.0	\$225.0
Snowmobile Enforcement Increase	\$0.0	\$200.0
Oil and Gas Audits Increase	\$0.0	\$168.0
Transfer to History, Arts and Libraries	(\$50.0)	(\$50.0)
Remove Natural Resources Trust Fund One-Time Funding	\$0.0	(\$37,601.2)
Remove GF/GP Funding for Michigan Civilian Conservation Corps	(\$1,724.9)	(\$1,724.9)
Remove One-Time Funding	\$0.0	(\$2,300.0)
Adjustment to Reflect End of 1997 Early Retirement Payouts	(\$235.2)	(\$933.3)
Economic Adjustments	\$115.2	\$1,426.3
Staff Reductions Needed to Pay For Employee Economics (4 FTE's)	(\$275.9)	(\$275.9)
Other Adjustments	<u>\$0.0</u>	<u>\$1,937.8</u>
Subtotal	\$236.0	(\$34,282.4)
FY 2003 Executive Recommendation	\$45,549.1	\$254,418.4

* FY02 funding amounts assume passage of \$1.0 gross, \$0 GF/GP, supplemental appropriations as recommended on November 6, 2001

Department of Natural Resources

The Department of Natural Resources is committed to the conservation, protection, and management of the state's natural resources. The latest developments in science and technology are used to support the outdoor interests of Michigan's diverse population. The department continually strives to develop innovative ways to partner with federal and private concerns in providing effective resource management.

The Governor's fiscal year 2003 budget recommendation for the Department of Natural Resources includes total funding of \$254.4 million, \$45.5 million general fund.

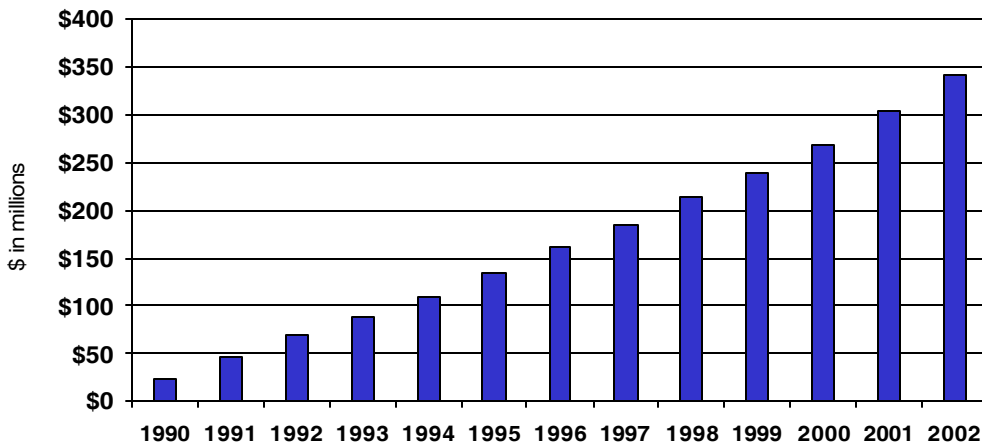
*Over
\$340
million
invested
in public
recreation*

Achievements of Engler Administration

In 1995, Governor Engler removed environmental regulatory duties from the department when he created the Department of Environmental Quality. This has allowed the Department of Natural Resources to focus more sharply on its mission of resource management and conservation.

The Michigan Natural Resources Trust Fund has been a model for the rest of the country in providing a source of funding for the acquisition of public recreational land and the development of outdoor, public recreational facilities.

Natural Resources Trust Fund Expenditures



Since 1990, over \$340 million in Trust Fund support has helped to improve the quality of life for Michigan residents and visitors. For example, thanks to a Natural Resources Trust Fund grant, the state was able to purchase the ecologically unique North Fox Island, to be maintained in its natural state for future generations to enjoy.

In 1998, Michigan voters approved the Clean Michigan Initiative, a \$675 million natural resources and environmental ballot initiative - the largest such environmental initiative in the nation at that time. The proposal included \$50 million for local community recreation grants and \$50 million to address long-standing infrastructure problems in Michigan state parks. A total of 220 local grant projects have been awarded to 215 communities, and over 200 projects at 53 state parks are anticipated.

Since 1994, when bovine tuberculosis was detected in a whitetail deer in Alpena County, comprehensive strategies have been developed to eliminate the disease by reducing deer population densities, and artificially induced concentrations of deer. To assess the extent of the infection, nearly 100,000 deer and more than 900 elk have been examined.

The decade of the 1990's provided ample proof that Michigan's efforts to protect populations of endangered species are working. The populations of the Kirtland's Warbler, American Bald Eagle, and Pine Marten have made amazing comebacks in Michigan. Efforts are underway to have the gray wolf reclassified in Michigan from an endangered to a threatened species, an amazing renewal of a native species regaining its historic place in the forest.

The late 1990's saw a renewed effort to promote appreciation of Michigan's outdoor heritage among young people. The department's award winning Michigan L.A.P.s project (Learn from the past, Appreciate the present, Preserve our outdoor heritage!) teaches children about Michigan and its natural resources. More than 5,200 Michigan public school teachers have received the L.A.P.s program and 87,000 children are "doing L.A.P.s" each year in Michigan. Some 400,000 people have visited the "Pocket Parks" constructed at the state fairgrounds in Detroit and Escanaba, which offer visitors visual images of the department's conservation mission and opportunities for catch-and-release fishing, archery and pellet gun target practice.

The Department of Natural Resources has championed the use of the Internet as a tool to improve customer access and service. The department's Web site provides users with information specific to most popular outdoor activities. The site includes a link to the Michigan state park system and provides an opportunity to make harbor and site-specific campground reservations, and is a convenient method for purchasing hunting and fishing licenses.

"The response to e-license by hunters has been very good. More than 30,000 hunters purchased their turkey, bear, elk and antlerless deer applications on-line last year, and the number of spring turkey applications sold on our Web site so far this year is well ahead of last year's pace."

**DNR Wildlife Chief Rebecca Humphries,
January 16, 2002**

In 2000, an historic 20-year agreement was reached resolving longstanding differences between the State and Native American Tribes concerning the 1836 Great Lakes Fishing Treaty. The agreement governs the allocation, management and regulation of fisheries in portions of lakes Michigan, Huron and Superior, ensuring a tribal fishery that can co-exist with sport fishery. The agreement includes an ambitious plan to rehabilitate lake trout in lakes Michigan and Huron with the goal of reestablishing indigenous stocks of lake trout by 2006.

Response to Revenue Decline

During the past year, state agencies were forced to reduce spending in order to bring expenditure levels in line with available funding. While the Department of Natural Resources reduced general fund spending by \$9.1 million over the past two fiscal years, \$4.7 million was replaced with available restricted revenues in order to protect critical programs. Reductions were achieved through operational efficiencies and vacancy savings. State support for programs not considered essential to the department's core mission was reduced, including general fund support for the Michigan Civilian Conservation Corps, abandoned mineshaft closure program, urban tree planting grants, and a previously added general fund supplement to the Forest Development Fund.

Summary of Fiscal Year 2003 Executive Budget

Despite the tight revenue situation, the Governor's fiscal year 2003 budget adds \$2.0 million in general fund support for continued surveillance and management costs associated with efforts to eradicate bovine tuberculosis from the white-tailed deer herd. The Governor's recommendation also protects and improves recreational programs by providing additional restricted funding for hunter education (\$225,000) and for snowmobile enforcement (\$200,000). Critical state parks infrastructure and recreation programs are enhanced with recommended funding for debt service on park improvement bonds (\$1.2 million), increases for utility and waste disposal in state parks (\$600,000) and increases for the recreational boating program (\$238,000). To maintain an important boating access point in southeast Michigan, the recommendation includes funding for operational costs (\$133,000) of the St. Aubin Marina in Detroit, which is scheduled to transfer to state ownership in 2002.

The recommendation removes general fund support for the Michigan Civilian Conservation Corps program (\$1.7 million). Despite this reduction, the program will continue to operate with day programs, although Camp Vanderbilt in northern Lower Michigan will close. The state can no longer support this high cost residential program, which exceeds \$30,000 per person -- more than the cost of a college education.

The Governor recommends funding for non-discretionary economic increases; however, four positions within the department will be eliminated to help pay for employee-related economics.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
Increase youth participation in hunting and fishing activities through educational outreach programs (number of youth licenses sold)	102,600	+7%	+16%	+25%
Increase usage of professional land management assistance by private landowners (number of land-owner inquiries)	27,800	+13%	+29%	+43%
Increase State Park user satisfaction (percentage of survey respondents who were pleased with their park experience)	N/A	78%	80%	+2%
Increase turkey hunting opportunities through habitat management by maintaining the acreage with turkey populations	42,500 sq. miles	43,800 sq. miles	43,800 sq. miles	43,800 sq. miles

Department of Transportation

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$0.0			\$0.0	\$0.0	\$0.0
All Funds	\$2,256,650.4			\$3,035,579.6	\$3,076,072.4	\$3,166,371.1
		% Change - GF/GP			0.0%	0.0%
		% Change - All Funds			1.3%	2.9%

KEY ISSUES

	GF/GP	All Funds
ROAD AND BRIDGE PROGRAMS		
Diesel Equity and Simplification Package	\$0.0	\$44,000.0
- National Highway System		\$32,640.0
- Critical Bridge Debt Service		\$5,760.0
- State Trunkline Fund		\$1,203.3
- County Road Commissions		\$1,203.3
- Cities and Villages		\$670.9
- Comprehensive Transportation Fund		\$342.0
- Implementation Costs/Allocations		\$2,180.5
Build Michigan III Debt Service	\$0.0	\$0.0
- Budget Stabilization Fund (BSF) Transfer		(\$35,000.0)
- State Trunkline Fund		\$35,000.0
Net Transportation Revenue/Program Adjustments	\$0.0	(\$35,497.3)
Federal Aid Program Adjustments	\$0.0	\$33,535.4
Highway Maintenance Program Support	\$0.0	\$7,168.3
Transportation Economic Development Program Restoration	\$0.0	\$2,250.0
COMPREHENSIVE TRANSPORTATION PROGRAMS		
Public Transportation & Rail Program Support	\$0.0	\$5,342.7
AERONAUTICS PROGRAMS		
Aeronautics Debt Service & Program Support	\$0.0	\$3,866.1
ADMINISTRATION		
- Executive Order Continuation - State/Treasury Collections	\$0.0	\$48,000.0
- Planning Program Savings	\$0.0	(\$5,578.8)
- Adjustment to Reflect End of 1997 Early Retirement Payouts	\$0.0	(\$1,601.2)
- Economic Adjustments	\$0.0	\$4,512.6
- Other Adjustments	\$0.0	(\$15,699.1)
Subtotal	\$0.0	\$90,298.7
FY 2003 Executive Recommendation	\$0.0	\$3,166,371.1

Department of Transportation

Record investments in road repairs and the advancement of several key economic development and congestion relief projects, as well as the implementation of more efficient, effective, and customer-oriented program delivery approaches, mark Governor Engler's achievements in the transportation arena. Demonstrating that his work is not yet complete, the Governor's fiscal year 2003 recommendation includes a major initiative that will provide a capstone to his transportation policy achievements -- Diesel Equity and Simplification. Total recommended funding for the Department of Transportation in fiscal year 2003 is \$3.2 billion, over 46 percent of which will be shared with local agencies.

Achievements of Engler Administration

Build Michigan Programs. The Governor's bold *Build Michigan I, II, and III* financing programs have resulted in record investments in Michigan's

transportation infrastructure. When the Governor took office in 1991, Michigan needed to be much more aggressive in matching available federal funds. The *Build Michigan I* program, announced in 1992, provided \$200 million in bond proceeds to leverage available federal aid. The *Build Michigan II* program followed in 1997 and worked to address immediate infrastructure needs with a long-term financing strategy that increased the state's gasoline tax and targeted those revenues to a focused repair, rebuild, and preservation program. The Governor's successful efforts in Washington D.C. returned an additional \$300 million annually in federal aid, which continues to pay dividends for the *Build Michigan II* program, enabling the department to bid record-breaking road and bridge programs each of the last four construction cycles.

Maintaining Michigan's economic growth and expansion was the impetus for the Governor's *Build Michigan III* program announced in 2000. This program provides for the investment of nearly \$1 billion in transportation projects (above and beyond the base construction program) that reduce congestion, improve safety, and meet current economic development needs. These *Build Michigan* programs have served as an important economic catalyst, providing thousands of jobs, spurring economic development, and supporting the efficient transport of valuable raw materials and commodities on our key commercial corridors.



Blue Water Bridge Second Span
Port Huron • Daily Traffic 35,000

M-59 Reconstruction
Macomb County • Daily Traffic 89,000

M-6 South Beltline Construction
Kent County • Daily Traffic 86,000 (est.)

M-5 Reconstruction
Oakland County • Daily Traffic 32,500

US-131 "S" Curve
Grand Rapids • Daily Traffic 119,000

I-75 Reconstruction
Downtown Detroit • Daily Traffic 65,000

US-131 Cadillac Bypass
Cadillac • Daily Traffic 14,000

I-275 Reconstruction
Wayne County • Daily Traffic 195,000

I-496 Reconstruction
Lansing • Daily Traffic 63,000

US-27 New Freeway
Lansing to St. Johns • Daily Traffic 24,000

Customer Focus. With resources in place, the Department of Transportation also worked to change the way it does business with the goal of becoming a leaner, more efficient, and more customer-oriented service delivery provider. The department now delivers three times the program with half the staff when compared to the late 1980's. Major management strategies include: publication of a rolling five-year plan of road and bridge construction projects; establishing Transportation Service Centers in local communities to better foster contacts with clients; instituting a "corridor approach" that minimizes motorist inconvenience by coordinating construction activity on large-scale projects; providing incentives for early completion of high-impact projects; and requiring warranties on construction projects to ensure high quality performance.

Intermodal Programs. One of the Governor's top intermodal priorities has been the construction of a new 1,000 foot lock at Sault Ste. Marie. Under the Governor's leadership, Michigan led the effort among the various Great Lakes states to secure the non-federal share of the estimated \$225 million project. Congress recently appropriated the first construction funds, demonstrating that after nearly 20 years of discussion, this project is about to come to fruition.

Michigan's public transit program currently ranks sixth in the nation in state support for public transit. Public transit and airport improvement programs have likewise been bolstered by Michigan's successful efforts to secure additional federal discretionary and entitlement funds for these improvement programs.

Response to Revenue Decline

In fiscal year 2002, Executive Order 2001-9 redirected \$15 million in transportation-related revenues to the general fund for fiscal year 2002 only. The fiscal year 2003 budget restores these revenues to transportation services. Executive Order 2001-9 also authorized the department to receive and pay billings from the Department of State and Treasury for allowable administrative costs associated with the collection of Michigan Transportation Fund (MTF) revenues. For the past several years, the state general fund has subsidized transportation-related activities in other agencies. In the current fiscal climate, the general fund can no longer provide this support. Budget constraints also require that the Budget Stabilization Fund support of \$35 million annually for the *Build Michigan III* program be discontinued beginning in fiscal year 2003. State trunkline revenues will now support the debt service obligations of this program.

Summary of Fiscal Year 2003 Executive Budget

Diesel Equity and Simplification Package. The Governor's fiscal year 2003 recommendation includes a comprehensive package of diesel tax and collection simplification reforms. These reforms provide for long-term revenue enhancement, generating additional support of \$46.3 million in fiscal year 2003, \$65.9 million in 2004, and \$90.2 million in 2005. The package addresses fairness for motorists by rectifying the inequity between motor fuel tax rates, standardizing all motor fuel taxes, including gasoline, diesel, and liquified

petroleum gas, to an effective tax rate of 19 cents per gallon. Michigan's current diesel taxation system is also one of the most complicated and burdensome in the nation. This comprehensive package simplifies the collection process for diesel fuel users and distributors, and improves compliance through the institution of a new electronic reporting system.

Revenues from the four cent diesel increase will be distributed as follows: 85 percent for use on National Highway System routes, and 15 percent to the

"Governor Engler is truly a leader among those who believe that, by managing the repairs we make on our roads, we can save the taxpayer his hard-earned money and make his journey faster, safer and more enjoyable."

Bill Ballou, President, Foundation for Pavement Preservation, *Governing* Magazine, January 2002

Critical Bridge Fund for use on local "on-system" bridges. These added revenues to the critical bridge fund will support the issuance of \$150 million in bond proceeds to reduce the backlog of local critical bridge needs. Dedicating the revenues for these purposes ensures that the diesel fuel tax increase is used on the commercial system that is of importance to the state's trucking, manufacturing, and commercial interests. The balance of the revenue from the package will be distributed through the historic Michigan Transportation Fund formula.

Other Adjustments. The Governor's fiscal year 2003 recommendation also includes the addition of over \$33 million in federal funds for state and local road and bridge repairs. Revenue-related adjustments for several programs have also been included to bring the budget into balance. Program savings have been realized where possible to offset programmatic impacts. Maintenance program increases of \$7.2 million, and \$5 million added to support debt service for the *Airport Safety and Protection (ASAP)* plan in the capital outlay bill, round out the highlights of the fiscal year 2003 transportation budget.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
Increase the percent of state freeway miles in good condition	82%	85%	86%	87%
Increase the percent of state non-freeway miles in good condition	66%	71%	74%	77%
Increase the percent of bridges in good condition	77%	79%	80%	81%
Reduce the percent of state highways with congested traffic flow	28%	28%	28%	28%
Increase the number of local bus passengers	91.3 million	90.1 million	90.5 million	90.9 million
Increase the number of local bus service miles	98.0 million	100.3 million	100.8 million	101.3 million
Increase the percent of primary runways in good condition at key airports	64%	66%	72%	75%

Capital Outlay

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$183,663.3			\$292,479.7	\$302,470.2	\$304,482.9
All Funds	\$296,626.0			\$522,831.5	\$486,161.2	\$562,769.9
		% Change - GF/GP			3.4%	0.7%
		% Change - All Funds			-7.0%	15.8%

KEY ISSUES	GF/GP	All Funds
State Building Authority Rent	\$16,012.7	\$16,487.7
Lump Sum Maintenance for Various State Agencies	\$0.0	(\$3,000.0)
Department of Military and Veterans Affairs		
- Removal of One-Time Funding	\$0.0	(\$500.0)
- Various Special Maintenance Projects	\$0.0	\$682.0
Department of Natural Resources Projects		
- Removal of One-Time Funding/Phase Completions	\$0.0	(\$15,024.5)
- Forest Roads, Bridges, and Facilities	\$0.0	\$800.0
- Deer Range Habitat Improvement	\$0.0	\$1,500.0
- State Boating Access Projects	\$0.0	(\$1,014.5)
- Local Boating Access Project	\$0.0	\$1,000.0
- State Harbors and Docks	\$0.0	\$11,475.0
- Local Harbors and Docks	\$0.0	\$125.0
Department of Transportation Projects		
- Removal of One-Time Funding/Phase Completions	\$0.0	(\$3,200.0)
- Airport Improvement Program	(\$5,000.0)	\$73,278.0
- Northwest/Midfield Terminal Commitment	(\$9,000.0)	(\$9,000.0)
- Monroe Welcome Center Construction	<u>\$0.0</u>	<u>\$3,000.0</u>
Subtotal	\$2,012.7	\$76,608.7
FY 2003 Executive Recommendation	\$304,482.9	\$562,769.9

Capital Outlay

Investment
in the
state's
infrastructure
grew
during the
1990's

The Governor's fiscal year 2003 capital outlay budget totals \$562.8 million gross, \$304.5 million general fund. State Building Authority rent payments to pay off debt for previously constructed capital outlay projects represent over 94 percent of the general fund request, totaling \$287 million. The Governor's recommendation for capital outlay includes an innovative *Airport Safety and Protection (ASAP)* plan that will provide for over \$1 billion in airport security and capital improvements over the next five years. Federal and restricted fund projects for the departments of Natural Resources and Transportation, as well as special maintenance support for state facilities are also recommended. No new capital outlay construction projects are included in the Governor's recommendation for fiscal year 2003.

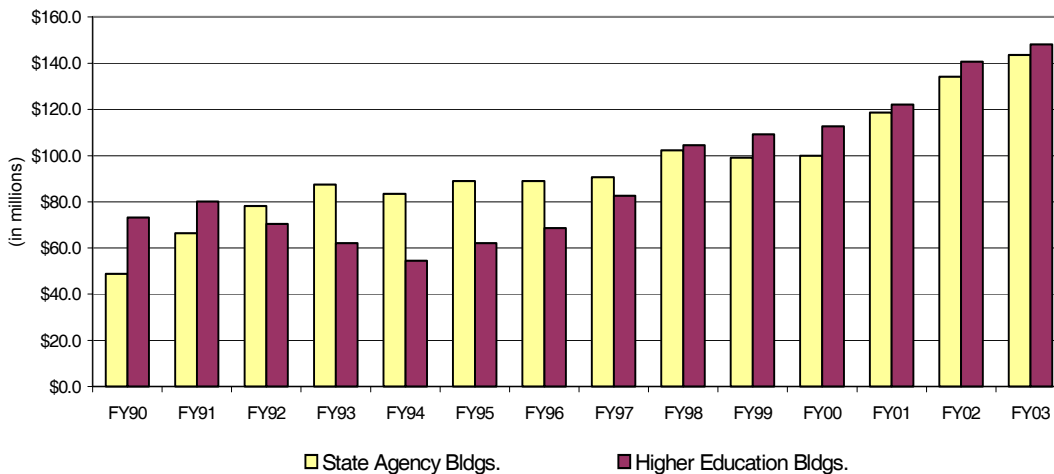
Achievements of Engler Administration

Unprecedented investment in Michigan's physical infrastructure will be a lasting hallmark for the Engler Administration. The current statutory limit on State Building Authority bond debt is \$2.7 billion. To date, over \$2.6 billion of that authority has been committed for projects already approved by the legislature.

Since 1990, projects totaling over \$3.6 billion have been authorized for higher education and state agency capital outlay. The total number of college or university projects approved for construction since 1990 is over one hundred: 58 projects at state universities (totaling \$1.9 billion) and 47 at community colleges

(totaling \$559 million). These higher education projects have been financed with \$1.8 billion from the State Building Authority, \$60 million from the state's general fund, and \$647 million in institutional matching funds.

Debt Obligations for State-Supported Construction



Significant investments of over \$1.2 billion have also been made for state agency construction projects during this period. These projects have been financed with \$1.1 billion from the State Building Authority, \$45 million from the general fund, and \$77 million from federal or state restricted sources. Construction of new prison facilities to add bedspace for inmates has been a significant component of capital programming in the 1990's. In addition, the consolidation and restructuring of office space in the tri-county Lansing area will have a significant long-term impact on state government operations and service delivery.

Construction of the Hall of Justice, Grand Tower, and Constitution Hall, and the renovation of the state Capitol building, coupled with the House of Representatives' move to their new office building, will have a lasting impact on the Capitol Complex landscape.

The capital outlay process, itself, has also been streamlined and re-engineered to more strategically focus the state's capital investments. Highlights of these improvements include:

- Universities, community colleges, and state agencies are now required to prepare five-year master plans and professionally developed facility assessments for all physical assets. Projects authorized for planning and construction must be derived from these master plans.
- Only those higher education projects which address academic or research needs are supported with state tax dollars.
- Both the state's public universities and community colleges are required to provide an institutional match for capital outlay projects. This match requirement has helped distinguish project priorities and allowed available resources to be conserved so that more projects may be financed within the State Building Authority bond capacity.

Response to Revenue Decline

Several actions have been taken in the capital outlay budget in response to constrained revenues. In the late 1990's when revenues were at their peak, the legislature financed several large construction projects on a pay-as-you-go basis with general fund. In fiscal year 2001, these projects were shifted to long-term indebtedness under the State Building Authority. The State Building Authority financing method spreads the construction costs for these facilities over a 12-to-18 year period, allowing the general fund to be used for more immediate budgetary priorities. In fiscal year 2002, Executive Order 2001-9 reduced state expenditures for State Building Authority rent (\$9 million), state agency special maintenance (\$4.4 million), and prior year work projects (\$8.5 million).

Summary of Fiscal Year 2003 Executive Budget

The Governor's fiscal year 2003 recommendation holds the line on general fund spending for capital outlay projects. State Building Authority rent obligations are increased by \$16.5 million, to a total of \$291 million gross. State agency general fund special maintenance is held at the fiscal year 2002 level of \$5.3 million general fund (a 71 percent decline from fiscal year 2001 levels). The budget also reflects reduced contractual commitments for Detroit Metropolitan Airport expansion (\$9 million). Key state restricted fund projects include expansion of the Mackinac Island marina, and construction of a new welcome center in Monroe.

Airport Safety and Protection (ASAP) plan. To help foster Michigan's economic recovery, the Governor's recommendation includes a five-year, \$1 billion dollar *Airport Safety and Protection (ASAP)* plan. This program provides for the issuance of \$60 million in bonds over a period of five years. These bond proceeds will help the state leverage \$160 million annually in federal funds for airport capital improvements. A key component of the package is \$17 million set aside exclusively for airport security and safety projects. As the past few months have painfully demonstrated, airport security and safety are more important than ever. The *Airport Safety and Protection (ASAP)* plan will combine state funds, federal funds, and bond proceeds to ensure that new security measures are put in place. State support will combine existing state aeronautics fund revenues with \$6 million redirected annually from the airport parking tax. The Governor urges adoption of this package expeditiously, to avoid delaying these key projects, several of which could begin immediately. Supplemental appropriations of \$55 million in the current year will allow many of these projects to start during the summer of 2002.

Fiscal Year 2002 Supplemental Recommendation

The Governor's recommendation includes a fiscal year 2002 supplemental of \$15.5 million for capital improvements to Sterling State Park. Improvements at this popular state park include a complete rebuilding of its 250 site campground and day use facilities. Construction will be supported through the issuance of state park improvement revenue bonds. In addition, the Governor's supplemental recommendation provides for replacement of the Jackson and Calumet armories, improvements to the Grand Ledge Army Airfleet Support Facility in Grand Ledge, the utilization of existing State Building Authority authorization and federal funds for the construction of a new 336-bed housing unit and food service facility for female inmates at Camp Brighton, and the replacement of two critical fisheries research vessels. The Governor urges expedited approval of these state agency projects so that construction may begin during the 2002 summer construction season.

(Amounts In Thousands)

	FY90			FY01	FY02	FY03
GF/GP	\$23,713.0			\$35,271.0	\$35,475.3	\$35,200.7
All Funds	\$32,471.3			\$61,563.5	\$62,900.5	\$62,838.9
		% Change - GF/GP			0.6%	-0.8%
		% Change - All Funds			2.2%	-0.1%

KEY ISSUES	GF/GP	All Funds
Adjustments To Reflect End of 1997 Early Retirement Payouts	(\$91.8)	(\$159.9)
Economic Adjustments	\$103.8	\$384.9
Staff Reductions Needed To Pay For Employee Economic (4.5 FTE's)	<u>(\$286.6)</u>	<u>(\$286.6)</u>
Subtotal	(\$274.6)	(\$61.6)
FY 2003 Executive Recommendation	\$35,200.7	\$62,838.9

Department of Attorney General

As the State of Michigan's chief law enforcement officer, the Attorney General upholds and preserves the state's legal interests. To accomplish this, the Attorney General provides legal advice and representation to state officials and agencies and, when warranted, initiates legal action on behalf of the citizens of Michigan.



The Governor's fiscal year 2003 budget recommendation for the Attorney General is \$62.8 million, of which \$35.2 million is general fund.

Achievements of the Last Decade

The Attorney General pursues legal actions against individuals and organizations that have harmed the interests of the public, including the continued enforcement of the Tobacco Master Settlement Agreement, originally signed in 1998. Enforcement issues include preventing violations of billboard advertisement restrictions, monitoring non-participating manufacturer sales, and discouraging sales of tobacco products to children.

The prosecution of computer crime is a major priority of the Attorney General. Working in conjunction with the Michigan State Police, the Attorney General dedicates staff to investigate and prosecute computer-related crimes. The department has prosecuted and convicted criminals who have defrauded Internet users or solicited to manufacture controlled substances such as GHB, known as the date rape drug. The department also investigates and files charges related to child pornography, transmission of computer viruses, fraud, privacy violations, identity theft, hacking and other unauthorized intrusions. Besides investigating and prosecuting cyber crimes, training and assistance is provided to other law enforcement agencies in the state.

During the last decade, the Administration has recommended and the Legislature has supported funding increases to assist the Attorney General with upholding and preserving the state's legal interests. A few of the initiatives that have received increased funding include:

- Increased investigation and prosecution of financial crimes;
- Increased investigation of health care providers;
- Increased support for drug enforcement purposes;
- Enhanced casino gaming oversight activities; and
- Expanded legal services for children and youth.

Response to Revenue Decline

During the past year, state agencies were forced to reduce spending in order to bring expenditures in line with available revenues. By instituting various administrative efficiencies and managing staff vacancies, the Attorney General was able to maintain core services.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 budget recommendation represents continuation level funding. As with all agencies, the Governor recommends the elimination of 4.5 staff positions in order to fund employee economics.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
Maintain or reduce the amount of court judgments or settlements paid as a percentage of total settlements sought by plaintiffs:				
✎ Corrections	2%	0.3%	<5%	<5%
✎ Community Health	3%	4.9%	<10%	<10%
✎ Tort Defense	5%	13%	<30%	<30%
Maintain or increase percentage of child custody recommendations upheld by court:				
✎ Wayne County Family Court	96.2%	97.3%	>95%	>95%
✎ Michigan Court of Appeals	97.4%	93.5%	>90%	>90%
✎ Michigan Supreme Court	100%	100%	>67%	>67%
Maintain or increase the amount of revenue collected as a result of lawsuits filed at the request of client agencies				
	\$34.1 million	\$24.9 million	\$23 million	\$23 million
Reduce or maintain the average time necessary to issue a formal legal opinion				
	65 days	65 days	65 days	65 days

Department of Civil Rights

(Amounts in thousands)

FUNDING HISTORY

	FY90			FY01	FY02	FY03
GF/GP	\$11,899.6			\$14,055.6	\$14,333.0	\$14,414.9
All Funds	\$13,191.6			\$14,989.6	\$15,267.0	\$15,348.9
	% Change -GF/GP				2.0%	0.6%
	% Change - All Funds				1.9%	0.5%

KEY ISSUES

	GF/GP	All Funds
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$38.0)	(\$38.0)
Economic Adjustments	\$301.1	\$301.1
Staff Reductions Needed to Pay for Employee Economics (3.0 FTE's)	<u>(\$181.2)</u>	<u>(\$181.2)</u>
Subtotal	\$81.9	\$81.9
FY2003 Executive Recommendation	\$14,414.9	\$15,348.9

Department of Civil Rights

The Department of Civil Rights investigates and resolves discrimination complaints and works to prevent discrimination through educational programs that promote voluntary compliance with civil rights laws. It also provides information and services to businesses on diversity initiatives and equal employment laws. Funding for fiscal year 2003 is recommended at \$15.3 million, of which \$14.4 million is general fund.

Achievements of Engler Administration

During the 1990's, the department made significant progress by reducing the amount of time needed to review and resolve civil rights complaints.



Technology was introduced to standardize and expedite complaint investigations and staff was trained in problem resolution techniques. Using this approach, the department eliminated 4,300 backlogged cases and now resolves new complaints swiftly: 14 days for early information resolution and 84 days for full investigation. The department also continues to promote educational efforts to ensure voluntary compliance with civil rights laws.

The department's effectiveness has been greatly enhanced through its active membership in several significant coalitions, such as Michigan Alliance Against Hate Crimes, Advocates and Leaders for Police and Community Trust, and Michigan Protection and Advocacy. In addition, the department has formed an inter-agency network to facilitate more comprehensive access to state programs and services by urban American Indians. During the Engler Administration, the department has been recognized for leadership within state government, among civil rights organizations in the state and on the national front.

During the 1990's the Michigan Women's Commission, in cooperation with the Governor and the legislature, worked on legislation affecting women and families, including anti-stalking laws, domestic violence legislation, and statutory penalties for use of date rape drugs.

Response to Revenue Decline

Due to declines in state revenues, the Governor issued Executive Order 2001-9 in November, 2001 to reduce spending to levels which could be supported by available revenues. This Executive Order included \$260,000 in reductions for the Department of Civil Rights, which were absorbed through management of staff vacancies and other administrative efficiencies.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 recommendation for the Department of Civil Rights represents continuation level funding. The Governor also recommends that the department eliminate three staff positions in order to fund employee economic increases.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
Prevent discrimination by increasing the number of education and outreach conferences, workshops and seminars for businesses and communities	546	316	500	550
Increase the number of civil rights complaints that are resolved informally	3,664	2,843	3,100	3,150
Resolve civil rights investigations at a quicker rate	320 days	220 days	100 days	84 days

(Amounts in thousands)

		FY90		FY01	FY02	FY03
GF/GP		\$13,479.0		\$12,373.9	\$10,656.4	\$10,649.0
All Funds		\$18,686.6		\$33,560.6	\$30,088.3	\$32,217.3
			% Change -GF/GP		-13.9%	-0.1%
			% Change - All Funds		-10.3%	7.1%

KEY ISSUES	GF/GP	All Funds
Training for State Employees	\$0.0	\$2,000.0
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$40.7)	(\$97.0)
Economic Adjustments	\$123.8	\$316.5
Staff Reductions Needed to Pay for Employee Economics (2.0 FTE's)	(\$105.5)	(\$105.5)
Other Adjustments	<u>\$15.0</u>	<u>\$15.0</u>
Subtotal	(\$7.4)	\$2,129.0
FY2003 Executive Recommendation	\$10,649.0	\$32,217.3

Department of Civil Service

The Michigan Department of Civil Service provides human resource management services to attract and retain an effective state workforce. The fiscal year 2003 budget recommendation for the department is \$32.2 million, of which \$10.6 million is general fund.

Achievements of Engler Administration

During Governor Engler's tenure, the Civil Service Commission has adopted various rule revisions to improve the state's ability to attract and retain high quality state employees. Examples include alternative selection processes, pay for performance programs, increased use of "broad banding" in employee classifications, streamlined grievance and appeal procedures, and drug testing.

In addition to these revisions, the Department of Civil Service has implemented numerous organizational and operational changes to improve the delivery of services. These include implementation of the Human Resources Management

"With implementation of the Human Resources Management Network we are positioned to take advantage of future technologies. This complex software includes payroll, employee self serve, and human resource and benefit processing for all three branches of state government."

John F. Lopez, Director, Department of Civil Service, January 24, 2002

Network, a new, state-of-the-art human resources management system; expanded use of Web-based job postings; implementation of an Internet job application process; establishment of a team-oriented service delivery system that allows customers to obtain all required services from the same organizational unit; and development of an electronic clerical examination to reduce the time required to administer and process the test. The department also transferred non-merit system functions like employee benefits, deferred compensation and the suggestion award program to the Office of State Employer and the Department of

Treasury and, in conjunction with the Office of the State Employer, established the Office of Performance Excellence for the purpose of developing a framework for statewide implementation of excellence in customer service.

Response to Revenue Decline

In response to revenue declines after the fiscal year 2002 budget was enacted, the Governor issued Executive Order 2001-9 which included \$560,860 in reductions for the Department of Civil Service. These reductions were absorbed through various administrative efficiencies throughout the department.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 budget recommendation continues the reductions required by Executive Order 2001-9, and includes staff reductions of \$105,500 to pay for employee economics. In addition, the recommendation for fiscal year 2003 includes a \$2.0 million increase in training revenue to support increased training for state employees.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
Maintain or increase the percentage of qualified workforce appointments made within one month to at least 90%:				
✍ 30 days or less	85%	90%	90%	90%
✍ 31 to 60 days	8%	5%	5%	5%
✍ 61 or more days	7%	5%	5%	5%
Increase hiring managers' satisfaction with the quality of candidates to at least 95%	78%	91%	95%	95%
To improve the skills of the state workforce, increase the number of hours employees participate in Civil Service training courses	104,660	141,259	165,300	165,300

Executive Office

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$3,943.1			\$5,651.2	\$5,480.9	\$5,486.4
All Funds	\$3,943.1			\$5,651.2	\$5,480.9	\$5,486.4
		% Change - GF/GP			-3.0%	0.1%
		% Change - All Funds			-3.0%	0.1%

KEY ISSUES

	GF/GP	All Funds
Economic Increases	\$60.3	\$60.3
Staff Reductions Needed to Pay for Employee Economics (0.8 FTE's)	<u>(\$54.8)</u>	<u>(\$54.8)</u>
Subtotal	\$5.5	\$5.5
FY 2003 Executive Recommendation	\$5,486.4	\$5,486.4

Executive Office

The Executive Office is the Office of the Governor. The budget provides funding for the Governor and his immediate staff, who assist him in executing his constitutional responsibilities as chief executive of the State of Michigan. The Executive Budget also includes funding for the Lieutenant Governor's office. The Lieutenant Governor performs gubernatorial functions in the Governor's absence, presides over the Senate, serves on the State Administrative Board and represents the Governor at selected local, state and national meetings.

The fiscal year 2003 Executive Budget recommendation reflects a continuation budget for the Executive Office, with total funding of \$5.5 million.

Achievements of Engler Administration

The Governor recognizes the vital role that citizens play in the decision-making process of state government. Easy access to decision makers and information is a

"This award demonstrates that Michigan continues its national leadership in using technology to better serve citizens and businesses. We view this latest accolade as recognition that our vision for Michigan's e-government future is on target."

Governor John Engler, announcing that Michigan had finished in the top 10 in the 2001 Digital State Survey, January 8, 2002

key component to a well-informed public. For that reason, Governor Engler has worked to make state government more accessible to its citizens. An award winning state Web site, "Michigan.gov" (<http://www.michigan.gov>) has been established with information on all the branches of state government: executive, legislative and judicial, including the status of pending legislation, House and Senate journals and calendars, and links to the Governor's office, the Lieutenant Governor's office, each legislator and other state agencies. In addition, the Web site offers access to state

services arranged by theme areas such as education and career development; business services; travel and recreation; family, health and safety; licensing, certification and permits; and Michigan government.

To further improve access to government, inter-active services have been added to the Web site so that citizens and companies can do business with the state over the Web. Among the many diverse services offered on the Web, it is now possible to renew your license plate, apply for a copy of your birth certificate, make camping reservations, register to do business with the state, verify the status of professional licenses and calculate your eligibility for financial aid for post-secondary education.

Response to Revenue Decline

Through Executive Order 2001-9, the Executive Office budget was reduced by \$228,900 for fiscal year 2002. Operational savings will be achieved through vacancy management and administrative efficiencies.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 Executive Recommendation represents continuation level funding.

(Amounts In Thousands)

	FY90			FY01	FY02	FY03
GF/GP	N/A			N/A	N/A	\$0.0
All Funds	N/A			N/A	N/A	\$333,453.6
		% Change - GF/GP		N/A	N/A	N/A
		% Change - All Funds		N/A	N/A	N/A

KEY ISSUES	GF/GP	All Funds
Fiscal Year 2002 Funding for State Government Information Technology Functions	\$0.0	\$342,019.5
Savings Resulting from Consolidation	\$0.0	(\$9,300.0)
Economic Adjustments	\$0.0	\$1,363.5
Staff Reductions Needed to Pay for Employee Economics (8.8 FTE's)	<u>\$0.0</u>	<u>(\$629.4)</u>
Subtotal	\$0.0	\$333,453.6
FY 2003 Executive Recommendation	\$0.0	\$333,453.6

Department of Information Technology

The Department of Information Technology was created by Executive Order 2001-3 for the purpose of improving the management of state information

and technology resources and to advance the delivery of services to the constituents of the State of Michigan. This new approach to information technology management will further strengthen central policymaking and direction-setting by coordinating an integrated statewide plan from individual state agency plans. The consolidation of information technology functions and resources supports a unified approach, which

"This technology initiative builds on the success of the e-Michigan Office and will help all state departments do a better job serving the people of Michigan. The fast pace of technological change demands a unified approach so that Michigan can stay in the lead."

Governor John Engler, announcing the creation of the Department of Information Technology, August 9, 2001

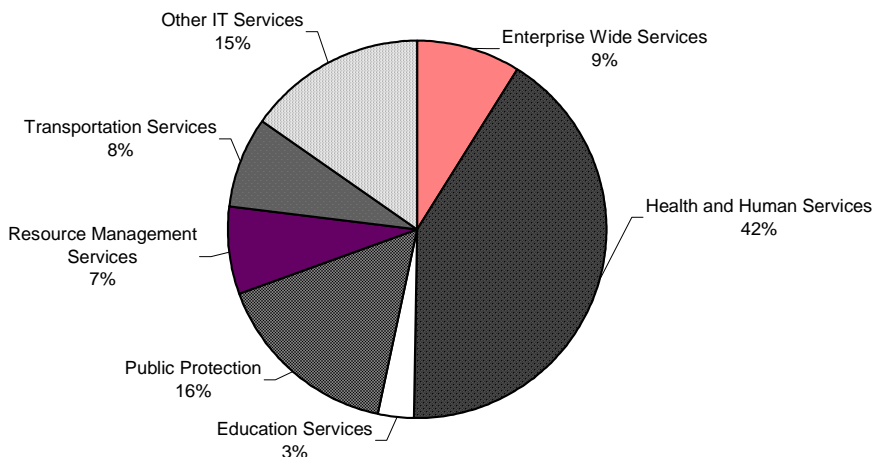
will act as the catalyst for improved information management, data standardization, enhanced project management practices and coordinated infrastructure planning.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 budget recommendation for the Department of Information Technology is \$333.5 million, fully supported by user fees from the state

agencies benefitting from the services. Baseline funding for the department represents a continuation of the fiscal year 2002 information technology funding included in executive branch budgets. Recommended adjustments to the baseline funding include \$9.3 million in administrative savings resulting from the consolidation of functions and resources. In addition, a reduction of 8.8 positions is recommended to offset the cost of employee economics.

Fiscal Year 2003 Recommendation by Category
\$333.5 Million



Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
To better manage information technology, consolidate all information technology personnel and expenditures into the Department of Information Technology (estimated consolidation percent complete)	N/A	N/A	20%	80%
Improve customer service by increasing the number of online government services	N/A	70	110	150
Conduct business process evaluations to identify potential e-government efficiencies	N/A	Implement	Conduct 50% more	Conduct 50% more
In order to deliver quality technology services to state agencies, increase the percentage of problems acknowledged within the target time frames				
✎ Urgent (10 minutes)	82.8%	87%	95%	95%
✎ High (30 minutes)	79.2%	89%	95%	95%

Legislature

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$85,915.9			\$118,162.4	\$122,359.2	\$122,842.8
All Funds	\$88,187.6			\$121,480.4	\$125,850.0	\$126,345.7
	% Change - GF/GP				3.6%	0.4%
	% Change - All Funds				3.6%	0.4%

KEY ISSUES	GF/GP	All Funds
Remove One-Time Funding	(\$200.0)	(\$200.0)
Adjustment To Reflect End of 1997 Early Retirement Payouts	(\$31.2)	(\$31.2)
Economic Adjustments	\$2,350.1	\$2,350.1
Staff Reductions Needed To Pay For Employee Economics (26.0 FTE's)	(\$1,635.3)	(\$1,635.3)
Other Adjustment	<u>\$0.0</u>	<u>\$12.1</u>
Subtotal	\$483.6	\$495.7
FY 2003 Executive Recommendation	\$122,842.8	\$126,345.7

Legislature

The Michigan Constitution vests the state's lawmaking power in a two-house Legislature consisting of a 38-member Senate and a 110-member House of Representatives. Senators are elected for four-year terms and Representatives

are elected for two-year terms. The Legislature is a sovereign and independent branch of state government with the authority to enact laws by which the actions of the government and the people are regulated and protected.



The Legislative budget includes funding to support members and employees of the Michigan Senate and Michigan House of Representatives. Funding is also provided for the Senate Fiscal Agency, House Fiscal Agency, Legislative Council, and the Legislative Auditor General.

The fiscal year 2003 recommended budget for the state Legislature is \$126.3 million, of which \$122.8 million is general fund.

Achievements of the Last Decade

In 1992, Michigan voters supported a ballot proposal to limit the number of terms legislators can hold political office. Representatives are now limited to three two-year terms and Senators are limited to two four-year terms.

The National Park Service declared the Michigan State Capitol a National Historic Landmark in 1992 following the authentic historical restoration that took place during the late 1980's and early 1990's. The authentic restoration process involved restoring the interior and exterior of the State Capitol building back to its original form. Many structural modifications that had been added over the years were removed, such as artificial partitions and sub-flooring. The Victorian style artwork that adorns the interior of the building was restored to its original appearance. This attention to detail allowed the Michigan State Capitol to be declared a National Historic Landmark, which is a distinction that Michigan shares with only fourteen other state capitols in the country.

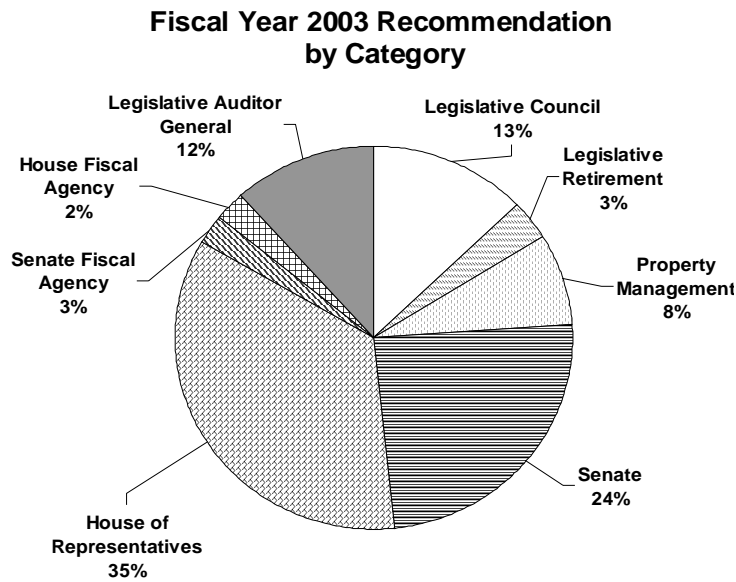
Response to Revenue Decline

During the past year, state agencies were forced to reduce spending in order to bring expenditure levels in line with available funding. The Legislature decreased general fund spending by \$5.1 million, including funding reductions for all component units.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 recommendation continues the funding cuts initiated in fiscal year 2002, with minor adjustments to reflect non-discretionary rent increases and the removal of one-time technology related funding. As with all other state agencies, the Governor recommends that staff positions be eliminated in order to fund employee economics.

The budget for the Legislature funds elected officials and their staff



Department of Management and Budget

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$32,160.9			\$56,026.0	\$43,868.2	\$43,372.7
All Funds	\$109,600.8			\$175,095.0	\$172,685.3	\$188,634.7
	% Change - GF/GP				-21.7%	-1.1%
	% Change - All Funds				-1.4%	9.2%

KEY ISSUES

	GF/GP	All Funds
Building Occupancy and Rent Adjustments	\$0.0	\$14,728.7
Tightened Security at State Buildings	\$0.0	\$4,792.0
Parking Adjustments Funded with User Fees	\$0.0	\$3,214.8
Professional Development Funds	\$0.0	\$750.0
Restricted Fund Source Increases	\$0.0	\$543.7
Restoration of Funding for Office of Children's Ombudsman and Offset with Other Department Savings	\$61.1 (\$61.1)	\$61.1 (\$61.1)
State Building Authority Contract Oversight	\$0.0	\$50.0
Reduce Funding for Retirement Services Technology Plan	\$0.0	(\$8,000.0)
Statewide Cost Allocation Plan Adjustment	(\$23.6)	\$0.0
Adjustment to Reflect End of 1997 Early Retirement Payouts	(\$27.5)	(\$126.1)
Economic Adjustments	(\$179.8)	\$260.9
Staff Reductions Needed to Pay for Employee Economics (4.0 FTE's)	<u>(\$264.6)</u>	<u>(\$264.6)</u>
Subtotal	(\$495.5)	\$15,949.4
FY 2003 Executive Recommendation	\$43,372.7	\$188,634.7

Department of Management and Budget

The Department of Management and Budget supports the business operations of state agencies through a variety of services. These services include: building management and maintenance, centralized contracting and purchasing programs, space planning and leasing, construction management, management of the state motor vehicle fleet and management of the state's retirement systems. Within the department, there are also three autonomous agencies. The Office of the State Budget coordinates all Executive Budget activities and oversees the state's accounting, payroll and demographic functions. The Office of the State Employer oversees all collective bargaining negotiations; formulates and administers labor relations policies for state classified employees; and administers group insurance and health benefit programs for state employees.

"We're extremely proud that the Government Finance Officers Association has given us its Award for Excellence in Financial Reporting fourteen years in a row."

**Don Gilmer, State Budget Director,
January 11, 2002**

The Office of Children's Ombudsman monitors compliance with statutes, rules, and policies pertaining to children's protective services and the placement, supervision, and treatment of children in foster care and adoptive homes.

The total recommended budget for fiscal year 2003 is \$188.6 million, of which \$43.4 million is general fund.

Achievements of Engler Administration

During the 1990's, the Department of Management and Budget initiated several operational changes to improve government effectiveness and reduce costs. These improvements include:

- Successful preparation of the state's computer systems for rollover to the Year 2000, earning national recognition for the quality of its efforts.
- Implementation of a new statewide accounting system resulting in improved financial management information and practices.
- Implementation of a defined contribution retirement plan for state employees, legislative employees and judges.
- Multiple agreements between the state and unions addressing rising health care costs for state employees, while maintaining high quality care through the use of preferred provider organizations, increased deductibles and prescription drug co-payments.
- Addition of electronic commerce services to better serve customers and vendors.
- Successful six-week reduction in the time required to publish the state's financial statements, while earning national quality awards every year.
- Consolidation of state services in urban areas to create "one stop shopping" for citizens, increase operational efficiencies of state agency staff through co-location, eliminate redundancies in administering leased space, and obtain better lease rates.

- Leasing vehicles for state agency use, instead of buying them, to improve the state's cash flow.
- Implementation of an on-line auction Web site to sell state surplus items.
- Development of a standard geographic information framework for the state to map state lands, buildings, roads and other assets.
- Collaboration with Michigan schools and libraries to obtain \$261 million in federal funds for telecommunications services, Internet access and distance learning.
- Establishment of formal project management practices to improve the success of information technology projects.
- Reduction of paperwork and administrative overhead by using procurement cards for low dollar purchases.

As a result of these improvements, coupled with strong management throughout state government, Michigan received a grade of A- from *Governing* magazine for the quality of overall state government management -- one of only three states to receive an A-, the highest grade awarded.

"Michigan is one of a handful of states that stands out from the pack. It is clear to us that management is considered a critical area in the state, and it shows throughout."

Richard Greene, Projects Editor, *Governing* Magazine, January 30, 2001

Response to Revenue Decline

The Department of Management and Budget, through several management initiatives, including a major reorganization, has been able to protect its core responsibilities while reducing its general fund budget by \$2.5 million. These reductions are expected to minimally affect services as economies and efficiencies are made on a department-wide basis.

Summary of Fiscal Year 2003 Executive Budget

The Governor's fiscal year 2003 budget continues all reductions included in Executive Order 2001-9. In addition, the department will reduce its staff by four positions in order to pay for employee economics.

In response to public safety concerns, \$4.8 million is recommended for increased security services in public buildings. Professional development funds in the amount of \$750,000 are recommended for employee training and severance pay as negotiated in recent collective bargaining agreements. In addition, building occupancy charges are increased to cover costs associated with new state owned buildings, including the Hall of Justice. Savings of \$8.0 million is recommended as development and implementation costs for the Office of Retirement Services technology project have been fully funded.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
In order to improve customer service to retirees, insure that at least 90% of retirees receive their first retirement check within 60 days after retirement	90%	97%	90%	90%
Improve customer satisfaction with facility design and construction services by meeting customer needs and time lines, and effectively controlling costs (percent satisfied)	N/A	79%	83%	85%
In order to support business operations, ensure that buildings are open and operational 99% of the time	99%	99%	99%	99%
In order to improve state governmental fiscal integrity, complete fiscal year with a positive balance in accord with Generally Accepted Accounting Principles	Accomplished	Accomplished	Will Accomplish	Will Accomplish
In order to improve customer service, increase the percent of vendor/payee registrations processed within 3 days of receipt	96%	97%	97%	97%

Department of State

(Amounts in thousands)

FUNDING HISTORY

		FY90			FY01	FY02	FY03
GF/GP		\$10,586.2			\$61,436.7	\$17,718.7	\$17,741.3
All Funds		\$109,337.0			\$180,559.4	\$139,288.4	\$179,828.1
			% Change - GF/GP			-71.2%	0.1%
			% Change - All Funds			-22.9%	29.1%

KEY ISSUES

	GF/GP	ALL FUNDS
Recognize Transportation Revenue Authorized in Executive Order 2001-9	\$0.0	\$40,000.0
Auto Theft Prevention Grants	\$0.0	\$100.0
Administrative Savings	(\$1,000.0)	(\$1,000.0)
Transfer to Department of History, Arts and Libraries	(\$261.8)	(\$261.8)
Adjustments to Reflect End of 1997 Early Retirement Payouts	(\$15.0)	(\$211.8)
Economic Adjustments	\$1,419.9	\$2,033.8
Staff Reductions Needed to Pay for Employee Economics (2.0 FTE's)	<u>(\$120.5)</u>	<u>(\$120.5)</u>
Subtotal	\$22.6	\$40,539.7
FY2003 Executive Recommendation	\$17,741.3	\$179,828.1

Department of State

The Department of State administers Michigan's motor vehicle programs including titling, registering vehicles, licensing drivers, and monitoring driver performance. The Secretary of State also supervises statewide elections and administers the state election law. Funding for fiscal year 2003 is recommended at \$179.8 million, of which \$17.7 million is general fund.

Achievements of the Last Decade

Over the past decade, the department has focused on using technology to improve services to the residents of Michigan. As a result of those efforts, the department has gone from operating a network of branch offices with no facsimile or copy machines, to giving Michigan residents the option of renewing license plates and watercraft registrations by facsimile, touch-tone telephone, and the Internet. A new electronic data collection program is now available to licensed brokers for electronic submittal of their sales reports. In addition, auto dealers no longer need to purchase pre-printed blank, multi-part customer title application forms. A new on-line service allows the dealers to complete and print the forms at the dealership as needed.

Driver Safety. The department has implemented a graduated driver license program that has reduced the crash rates among young drivers by 25 percent in only four and a half years. In addition, repeat offender laws, designed to address the problem of repeat drunk drivers and those who drive repeatedly on a suspended license, have led to the arrest of more than 120,000 drunk drivers, the confiscation of 42,000 license plates, the revocation of 25,600 driver licenses, and immobilization of 8,400 vehicles in only two years.

Election Reform. The Secretary of State is Michigan's chief elections officer. To improve the integrity of the elections process, the department implemented the Qualified Voter File, a statewide voter database. It has enabled the department

"Michigan is not only one of the first, but one of the stellar examples."

Lisa-Joy Zgorski, National Commission on Federal Election Reform spokeswoman, commenting on Michigan's Qualified Voter File, August, 6, 2001

to verify voter registrations and eliminate more than 600,000 duplicate registrations that were maintained in local files throughout the state. The File has been used successfully since 2000 by all jurisdictions holding elections. The system received national recognition from the National Commission on Federal Election Reform and in reports from the California Institute of Technology and the Massachusetts Institute of Technology.

Response to Revenue Decline

Executive Order 2001-9, issued in response to recent declines in state revenues, included \$3.0 million in reductions for the Department of State, which resulted in the closure of three branch offices. The Executive Order also shifted \$40.0 million in administrative costs for the collection of transportation-related fees to the Michigan Transportation Fund, which directly benefits from the revenue collected.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 budget recommendation continues the fiscal year 2002 Executive Order reductions. The fiscal year 2003 recommendation also includes the transfer of \$261,800 to the Department of History, Arts and Libraries to complete the integration of all historical programs into that department and increases funding by \$100,000 to assist the department with auto theft prevention. The recommendation also includes \$1.0 million in administrative savings by moving more services to touch-tone telephone and Web sites, thereby reducing in-person traffic in branch offices.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
Increase customer use of technology for conducting business with Secretary of State				
✎ Touch tone telephone registration	168,160	169,850	170,850	171,850
✎ Mobile office	8,513	10,200	10,700	11,235
✎ Internet registrations	147,740	195,500	234,600	281,500
✎ TOTAL	324,413	370,550	410,150	457,585
Increase cumulative number of license plate confiscations in order to reduce repeat offenders on Michigan roads	20,655	42,000	47,000	56,000
Increase the number of organ donors on the Gift of Life Registry	286,590	422,000	560,000	610,000
Increase overall customer satisfaction and quality of branch office visits (percent of survey respondents indicating approval)	85%	87%	89%	90%

Department of Treasury

(Amounts In Thousands)

Funding History

	FY90			FY01	FY02	FY03
GF/GP	\$101,606.4			\$159,973.5	\$158,786.0	\$123,880.2
All Funds	\$1,329,189.7			\$2,047,135.7	\$1,991,977.2	\$1,968,066.3
		% Change - GF/GP			-0.7%	-22.0%
		% Change - All Funds			-2.7%	-1.2%

KEY ISSUES	GF/GP	All Funds
Federal Grant for State Education Assessments	\$0.0	\$10,698.8
Grants to Local Government Units	\$10,000.0	\$10,000.0
Costs For Transportation Related Tax Collection And Audit	\$0.0	\$8,000.0
Annualize Tax Reverted Property Systems Costs	\$0.0	\$3,071.7
Investments Management Services	\$0.0	\$2,350.0
Diesel Equity and Simplification Package	\$0.0	\$2,225.0
Health and Safety Grants	\$0.0	\$1,150.0
Commercial Mobile Radio Grants	\$0.0	\$1,000.0
Senior Citizens Cooperative Housing Tax Exemption Payments	\$650.0	\$650.0
School Bond Loan Reviews	\$0.0	\$70.0
Debt Service Requirements	(\$41,034.9)	(\$41,034.9)
Revenue Sharing Payments	\$0.0	(\$11,800.0)
Transfer School Bond Loan Debt Service to School Aid Budget	(\$4,673.7)	(\$5,373.7)
Reduce Funding for Technology Plan Due To Implementation of Customer Service Initiative	\$0.0	(\$3,000.0)
Adjust Lottery Administrative Budget to Expected Spending Level	\$0.0	(\$1,781.8)
Remove Administrative Costs for 2002 Tax Amnesty Program	(\$1,500.0)	(\$1,500.0)
Technical Adjustment - Department of Agriculture Grant	\$0.0	(\$1,300.0)
Remove Administrative Costs for Prescription Tax Credit	\$0.0	(\$182.5)
Reduce City of Benton Harbor Enterprise Zone Payment	(\$42.5)	(\$42.5)
Adjustments To Reflect End of 1997 Early Retirement Payouts	(\$74.0)	(\$203.7)
Economic Adjustments	\$1,950.8	\$3,274.2
Staff Reductions to Pay for Employee Economics (3.0 FTE's)	(\$181.5)	(\$181.5)
Subtotal	(\$34,905.8)	(\$23,910.9)
FY 2003 Executive Recommendation	\$123,880.2	\$1,968,066.3

Department of Treasury

The Governor's fiscal year 2003 budget recommendation of \$2.0 billion, of which \$123.9 million is general fund, supports the Department of Treasury's primary responsibilities of collecting state taxes; investing, controlling and disbursing state funds; managing one of the nation's largest pension funds; and protecting the state's credit rating. Treasury also manages the \$1.5 billion revenue sharing program, which distributes unrestricted financial support to all local units of government in the state.

Achievements of Engler Administration

Strong Financial Management. Citing improved financial controls, sound fiscal policies and realistic budgeting, Wall Street rating agencies upgraded Michigan's credit rating five times over the last decade. In 2000, Wall Street boosted

"Ultimate judgment on the status of state government's finances is not made in Michigan but on Wall Street by the major securities rating services. There, Michigan is notching straight A's."

Grand Rapids Press, October, 8, 2000

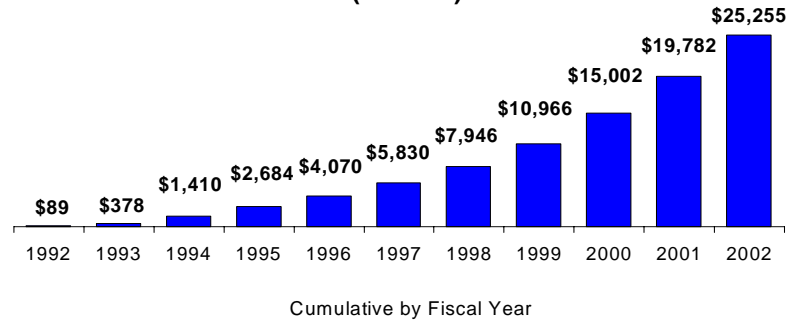
Michigan's rating to AAA, the highest possible, for the first time in 24 years. Michigan is the largest state to achieve this status, sharing it with nine other states. As a result, Michigan can borrow at lower interest rates, saving Michigan taxpayers millions while freeing up financial resources for other important priorities. As a result of the AAA bond rating and other debt service initiatives, debt service requirements dropped over \$30.0 million from fiscal year 1999 to fiscal year 2000 and have remained at least \$25.0 million below fiscal year 1999 levels.

Tax Cuts. Michigan state and local taxes have been cut by \$25.3 billion from FY 1992 through FY 2002. This has enhanced the growth of the Michigan economy, witnessed by historically low unemployment rates and strong job growth. Additionally, Proposal A reduced high property taxes and at the same time provided long awaited school finance reforms. Michigan's reduced tax burden provides an improved business climate and enables the state to be competitive with other states for new businesses. A lower tax burden also provides the opportunity for families to enjoy a higher standard of living.

Faster Filing, Faster Returns. Reducing tax processing time continues to be a priority for the Department of Treasury. In 1992, the Michigan Department of Treasury began a pilot program to test the feasibility of electronically filing Michigan Individual Income Tax returns. That year, 117 returns were submitted electronically. Since then, e-filing has expanded each year to more than one million tax returns filed electronically in 2001. That number is expected to grow as Treasury expands its promotional efforts and the computer software needed for e-filing becomes more readily available to taxpayers.

The Customer Comes First. As part of an effort to better serve its customers, the Department of Treasury will begin utilizing its Customer Relationship Management system in early 2002. The system will allow customer service representatives to provide greater responsiveness to taxpayer inquiries and better access to tax law and information. This effort, with a budget appropriation of \$3.5 million in fiscal year 2003, will eventually be expanded to include customer service capabilities through the Internet and e-mail. With those features, taxpayers will be able to interact with Treasury department personnel, view account data, and submit e-mail forms for additional service requests, 24-hours a day, seven days a week.

Michigan Taxpayers Save \$25 Billion
From 1992 to 2002
(millions)



Rewarding Education Excellence. Treasury administers three programs that spotlight students and schools that excel on the Michigan Educational Assessment Program (MEAP) tests. High school graduates who score well are rewarded with \$2,500 for college expenses as recipients of the Michigan Merit Award. In 2001, more than 48,700 Michigan high school students qualified for Merit Award scholarships. High schools with the highest number of Merit Award recipients are in turn rewarded with the Governor's Cup, while elementary schools whose students perform well on the MEAP tests can win Golden Apple Awards. In addition, higher education in Michigan has been made more affordable through the following programs: the Michigan Education Trust (MET) and the Michigan Education Savings Program. MET allows parents, grandparents and others to purchase prepaid tuition contracts for students based on current tuition rates at Michigan public colleges and universities. Purchasers of MET contracts qualify for a state income tax deduction for the total contract price, and distributions are exempt from federal and state income tax, when used for qualified educational expenses. The Education Savings Plan, implemented in November 2000, allows parents, grandparents, and others to establish a "college savings account" for a beneficiary with a minimum \$25 contribution.

Response to Revenue Decline

The Department of Treasury, through the reduction of temporary staff for tax processing and other management initiatives, has been able to protect its core mission responsibilities while reducing expenditures over \$2.0 million. These reductions are expected to minimally affect tax processing and refund service time. In addition, Executive Order 2001-9 shifted \$8.0 million in general fund support for the collection of motor fuel taxes to the Michigan Transportation Fund, which directly benefits from the collection of these taxes.

Summary of Fiscal Year 2003 Executive Budget

The fiscal year 2003 recommendation continues the reductions and funding shift included in Executive Order 2001-9. In addition, by taking advantage of current low interest rates and restructuring debt service obligations, the state will realize a reduction in debt service costs of \$41.0 million. A funding reduction of \$3.0 million is recommended for the customer service initiative, which will be completed during fiscal year 2002. In addition, the Governor recommends that funding for the School Bond Loan Program be transferred to the School Aid budget, thus saving \$4.7 million general fund.

The Governor's recommendation includes \$10.7 million for assessment testing requirements associated with the federal "No Child Left Behind Act of 2001." This act requires states to implement annual reading and math assessments for grades 3 through 8.

The recommendation also includes the following restricted fund increases: \$3.0 million for full year implementation of the tax reverted property program; \$2.4 million for investment management services to manage the \$48+ billion state pension system; and \$2.2 million to implement a electronic motor fuel reporting system that will improve compliance and increase collections to the Michigan Transportation Fund. The recommendation also includes several funding initiatives to benefit local units of government including \$1.1 million for health and safety grants; \$1.0 million for commercial mobile radio service grants to service providers and local units of government to expand 911 emergency services; and \$650,000 for Senior Citizens Cooperative Housing grants to local units of government for payments in lieu of taxes on senior and disabled occupied housing facilities.

Program Outcomes	Fiscal Year			
	2000	2001	2002	2003
In order to improve the accuracy and timeliness of the tax process, increase the percentage of tax returns filed electronically	29%	52%	56%	60%
In order to improve the accuracy and timeliness of the tax process, increase the percentage of error free tax returns filed	88%	90%	90%	91%
In order to improve department efficiency, increase the percentage of all payments processed electronically	21%	25%	32%	40%
Increase the annual percentage of unclaimed property held by the state that is returned to rightful owners	32%	43%	41%	42%

State Revenue Sharing

Administered by the Department of Treasury, Michigan's revenue sharing program provides unrestricted financial support to over 1,800 local units of government, allowing communities to determine how best to fund local services. There are two ways that local units share in a portion of sales tax revenue: a constitutionally-dedicated portion is distributed to cities, villages and townships based on a community's population; an additional portion of sales tax revenue is earmarked in state law to provide revenue sharing payments that are subject to annual appropriation. Funding for fiscal year 2003 is recommended at \$1.53 billion.

Achievements of Engler Administration

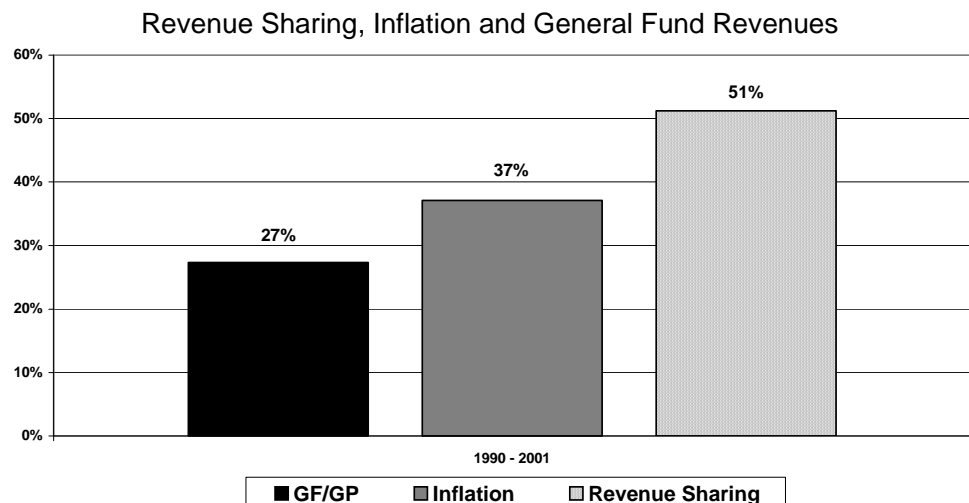
The 1990's was a decade of growth and change for the revenue sharing program. As a result of the booming economy, significant increases in revenue sharing payments were made. From fiscal year 1990 through fiscal year 2001, total revenue sharing payments increased from \$1.03 billion to \$1.56 billion - an increase of over 51 percent, compared to the 37 percent increase in inflation during that period.

In January 1999, Governor Engler signed into law a new revenue sharing act, providing a more equitable distribution of revenue sharing funds. Fiscal year 2003 marks the fifth year of a 10-year phase-in of new formulas intended to eliminate incentives for local government taxation, equalize disparities in revenue raising capabilities, and recognize the wide variety of services provided by local governments of different sizes and types. Next year, 50 percent of the amount of statutory revenue sharing distributed to local communities will be based on these new provisions.

Revenue sharing outpaces growth in general fund revenues and inflation

Response to Revenue Decline

Since actual revenue for fiscal year 2002 falls significantly below the revenue estimates upon which appropriations were originally based, Executive Order 2001-9 reduced state spending, including state revenue sharing payments. Total revenue sharing to be distributed in fiscal year 2002 is estimated at \$1.53 billion, a 1.7 percent reduction from the prior year.



Summary of Fiscal Year 2003 Executive Budget

For fiscal year 2003, a further decline in state revenue is projected. However, the Governor recommends that aggregate revenue sharing payments remain unchanged at \$1.53 billion. By law, the constitutional portion will increase from \$660.8 million to \$682.3 million, a 3.3 percent increase. The remaining \$846.5 million will be distributed according to statutory formulas.

With continuation funding of \$1.53 billion and a larger allocation required for constitutional payments, certain communities are expected to receive reduced revenue sharing in fiscal year 2003. In order to minimize the financial difficulties that this might pose for those communities, the Governor's budget establishes one-time grants to local governmental units with \$10 million in general fund resources. Of that amount, \$5.4 million is targeted for assistance to counties; the remaining \$4.6 million is available to qualifying cities, villages and townships to offset the otherwise negative impact of revenue sharing distributions in fiscal year 2003.

Fiscal Year 2003 General Fund/General Purpose
Sources and Uses of Funds
(in millions)

Beginning Fund Balance, October 1, 2002	\$0.0
REVENUES:	
Estimated Consensus Net Revenues	8,724.2
<u>Adjustments:</u>	
Cap Revenue Sharing at FY 2002 Level	122.4
Diesel Equity and Simplification Proposal	3.0
Budget Stabilization Fund Withdrawal	207.0
Merit Award Trust Fund Withdrawal	100.0
Michigan Employment Security Contingent Fund Withdrawal	79.5
Total Sources of Funds	\$9,236.1
EXPENDITURES:	
FY2003 Executive Recommendation	<u>9,235.3</u>
Total Uses of Funds	<u>9,235.3</u>
Ending Fund Balance, September 30, 2003	<u>\$0.8</u>

Fiscal Year 2003 All Funds
Sources and Uses of Funds
(in millions)

Beginning Unreserved Fund Balance, October 1, 2002		\$874.3
REVENUES:		
Estimated Consensus Net Revenues	\$38,712.1	
Adjustments to Consensus Net Revenues	<u>(567.8)</u>	
<u>Other Adjustments:</u>		
Cap Revenue Sharing at FY 2002 Level		122.4
Medicaid Benefit Trust Fund		246.5
Michigan Employment Security Contingent Fund		<u>89.3</u>
Total Sources of Funds		\$39,476.8
EXPENDITURES:		
FY2003 Executive Recommendation	\$39,422.3	
Less: Interdepartmental Grants and Transfers	<u>(702.2)</u>	
Total Uses of Funds		<u>38,720.1</u>
Excess of Sources Over Uses		<u>\$756.7</u>

Historical Expenditures/Appropriations Gross

DEPARTMENTS	FY 90 Expend.	FY 91 Expend.	FY 92 Expend.	FY 93 Expend.	FY 94 Expend.	FY 95 Expend.	FY 96 Expend.	FY 97 Expend.	FY 98 Expend.	FY99 Expend.	FY00 Exp.	FY01 Cur. Law	FY02 Cur. Law	FY03 Rec.
Agriculture	62,299,100	55,989,528	51,615,138	50,434,234	52,444,537	55,780,064	59,884,019	66,273,858	71,829,591	77,574,947	90,325,582	112,618,000	98,571,100	97,454,300
Attorney General	32,471,300	35,327,938	37,695,943	39,224,010	39,990,347	40,839,771	43,028,553	44,416,606	42,884,005	47,352,532	53,047,391	61,563,500	62,900,500	62,838,900
Capital Outlay	296,626,026	267,092,400	300,633,622	270,544,453	308,438,632	290,636,661	499,571,713	245,772,178	496,723,755	442,121,005	509,342,187	522,831,500	486,161,200	562,769,900
Career Development											392,500,509	523,327,200	525,121,600	534,318,700
Civil Rights	12,182,200	11,941,297	11,985,262	12,494,268	12,382,479	14,315,499	13,457,887	13,232,623	13,244,555	13,957,360	14,646,385	15,200,900	15,267,000	15,348,900
Civil Service	23,925,900	24,298,767	24,124,913	27,637,177	27,027,675	27,954,843	30,354,661	25,283,585	28,206,918	29,615,253	39,874,163	33,560,600	30,088,340	32,217,300
Commerce	287,841,500	312,810,800	289,294,945	295,290,505	349,109,486	295,836,299	193,144,304							
Community Health								6,982,832,645	7,231,164,775	7,534,568,089	8,215,483,585	8,550,942,900	8,525,720,000	9,155,663,900
Consumer and Industry Services								456,397,250	421,826,111	390,437,237	410,919,610	529,337,800	557,480,400	570,138,100
Corrections	757,370,200	806,803,557	896,870,029	1,004,807,757	1,081,670,049	1,206,246,823	1,296,847,339	1,318,192,287	1,334,952,759	1,453,513,634	1,581,552,155	1,703,858,400	1,682,254,400	1,713,462,500
Education	540,615,905	602,908,408	665,712,237	724,539,674	675,631,914	681,479,871	697,957,806	713,011,559	769,882,208	824,722,372	859,779,826	929,969,900	995,104,900	89,896,000
Environmental Quality							307,805,328	193,902,247	181,985,762	197,727,718	253,398,133	499,409,200	458,028,300	404,825,600
Executive Office	3,943,100	3,631,128	4,154,796	4,328,918	4,286,138	4,432,808	4,835,017	4,741,680	5,118,384	5,067,702	5,411,980	5,651,200	5,480,900	5,486,400
Family Independence Agency								3,495,213,116	3,278,954,106	3,263,651,087	3,389,891,595	3,555,737,500	3,805,679,400	3,956,405,800
Higher Education														
Community Colleges	212,490,500	189,638,936	241,593,632	240,000,000	240,000,000	247,800,000	253,009,787	262,186,716	274,845,576	277,907,138	297,158,459	325,011,719	321,596,300	321,732,319
Universities/Financial Aid	1,197,173,800	1,171,068,759	1,300,676,638	1,315,674,536	1,320,163,027	1,359,107,568	1,413,957,617	1,493,857,731	1,561,667,022	1,608,007,149	1,775,304,640	1,910,550,908	1,925,842,400	1,939,071,166
History, Arts and Libraries													74,545,700	72,264,900
Information Technology														333,453,600
Judiciary	153,347,000	152,350,760	163,673,611	172,557,720	195,977,612	199,097,762	210,601,105	187,104,924	204,599,850	210,076,397	223,044,229	236,914,000	241,449,900	246,587,900
Labor	441,332,180	417,902,689	429,019,721	334,313,649	232,709,576	232,528,985	274,987,397							
Legislature	75,442,800	74,163,022	83,126,023	83,896,838	86,302,513	85,242,099	88,075,902	88,025,315	90,234,951	96,560,496	105,202,720	106,420,700	125,850,000	126,345,700
Legislative Auditor General	9,885,000	9,928,300	10,228,400	10,662,617	11,930,295	12,590,516	12,926,954	13,056,351	12,869,037	13,537,569	14,541,223	15,059,700		
Library of Michigan	30,430,700	30,790,339	28,775,437	28,582,023	30,706,838	32,107,952	31,970,662	27,784,497	35,086,400	36,131,970	35,531,114	39,916,700		
Licensing and Regulation	26,165,400	26,465,000												
Management and Budget	1,223,690,700	1,250,529,695	1,181,246,023	210,778,161	104,175,677	109,262,119	137,469,710	143,070,649	134,397,354	153,180,243	157,518,726	175,095,000	172,685,300	188,634,700
Aging	60,439,300	61,730,880	58,834,831	60,388,431	63,499,462	88,180,585	94,050,068	102,735,110						
Mental Health	1,246,380,384	1,320,128,986	1,304,143,665	1,382,593,420	1,459,038,492	1,522,731,485	1,881,660,627							
Michigan Biologic Products								16,101,428	21,796,070	216,139				
Michigan Jobs Commission								333,585,533	356,555,846	482,007,744				
Michigan Strategic Fund				87,705,389	235,983,401	280,760,026	316,369,029				102,804,885	168,754,800	169,090,600	155,037,500
Military and Veterans Affairs	23,209,180	26,225,756	59,074,002	62,712,137	68,443,597	72,015,536	77,744,603	83,372,837	78,980,935	90,365,660	94,923,386	100,963,500	100,268,000	107,837,500
Natural Resources	288,713,572	246,756,581	333,216,315	383,740,573	435,286,252	515,571,467	171,756,943	198,582,936	210,454,114	218,669,725	250,254,611	283,382,400	287,657,900	254,418,400
Public Health	412,057,300	443,394,713	431,451,204	474,799,000	524,217,467	601,029,072	607,898,745							
School Aid	2,992,824,943	3,199,053,338	3,137,763,749	3,483,755,480	4,431,029,987	7,975,666,620	8,928,001,053	8,894,322,580	9,405,837,000	9,647,919,000	10,069,742,011	10,892,285,000	11,451,113,400	12,795,333,400
Social Services	5,097,495,615	5,796,196,684	5,809,437,907	6,522,764,560	7,099,482,216	7,132,053,217	8,212,306,769							
State	117,337,200	120,548,314	126,066,628	125,939,821	129,930,177	140,320,887	146,427,648	150,798,841	148,645,475	158,619,422	166,861,198	188,559,600	139,288,400	179,828,100
State Police	229,652,392	234,417,217	253,322,612	258,638,227	273,300,747	291,179,449	320,805,032	350,427,467	347,462,495	353,827,271	363,551,380	427,858,300	407,283,800	416,444,600
Transportation	2,256,650,400	2,201,333,700	2,270,002,624	2,417,624,941	2,243,683,593	2,395,134,800	2,194,045,559	2,818,192,757	2,520,658,697	2,631,185,388	2,660,470,554	3,035,579,600	3,076,072,400	3,166,371,100
Treasury	160,742,400	220,056,213	1,152,163,653	2,234,266,528	2,395,018,854	1,857,817,145	1,987,113,970	2,049,931,726	2,189,911,359	2,278,280,379	2,306,625,811	1,955,565,200	1,885,982,200	1,908,479,900
Debt Service	48,824,200	73,446,930	51,217,172	55,145,651	40,689,662	128,023,922	142,278,755	164,065,122	117,140,891	116,691,988	85,618,450	91,570,500	105,995,000	59,586,400
Various State Agency Reductions														(50,000,000)
TOTALS	18,321,560,197	19,386,930,635	20,707,120,732	22,375,840,698	24,172,550,702	27,895,743,851	30,650,344,563	30,936,472,156	31,587,916,001	32,653,492,614	34,525,326,498	36,997,496,227	37,732,579,340	39,422,253,485

Historical Expenditures/Appropriations GF/GP

DEPARTMENTS	FY 90 Expend.	FY 91 Expend.	FY 92 Expend.	FY 93 Expend.	FY 94 Expend.	FY 95 Expend.	FY 96 Expend.	FY 97 Expend.	FY 98 Expend.	FY 99 Expend.	FY 00 Expend.	FY 01 Cur. Law	FY 02 Current Law	FY 03 Rec.
Agriculture	30,798,600	29,089,750	26,043,571	25,200,069	26,023,343	41,507,294	43,441,799	36,977,547	34,215,715	39,633,018	52,986,168	51,794,600	41,396,000	40,801,000
Attorney General	23,557,000	22,272,296	23,715,728	24,645,982	25,731,152	26,911,995	28,146,412	28,728,101	28,740,351	30,443,940	34,289,352	35,271,000	35,475,300	35,200,700
Capital Outlay	183,663,345	187,937,919	155,374,616	159,576,448	203,890,424	185,627,808	190,278,423	204,098,457	257,953,893	329,379,869	386,252,729	292,479,700	302,470,200	304,482,900
Career Development											33,300,372	30,331,400	34,602,700	34,679,800
Civil Rights	10,890,200	10,272,486	10,214,935	11,038,369	10,600,820	12,712,217	11,992,187	11,750,247	11,975,385	12,704,328	14,165,065	14,266,900	14,333,000	14,414,900
Civil Service	13,528,000	13,937,855	10,996,513	11,749,312	10,813,028	10,621,489	12,852,378	12,611,237	13,181,110	15,248,222	21,810,241	12,373,900	10,656,400	10,649,000
Commerce	110,206,516	89,144,643	62,194,902	60,530,700	55,089,586	56,613,455	29,106,436							
Community Health								2,489,426,814	2,435,154,320	2,561,333,736	2,559,451,214	2,673,556,200	2,560,657,800	2,563,061,200
Consumer and Industry Services								63,702,550	75,721,087	69,255,350	76,578,288	83,343,500	37,896,700	37,987,900
Corrections	732,154,600	784,623,528	870,517,968	974,383,562	1,052,962,753	1,176,825,208	1,260,365,194	1,277,460,254	1,268,613,426	1,375,072,599	1,489,668,883	1,619,600,500	1,599,453,900	1,627,858,900
Education	50,766,970	50,159,451	32,826,318	43,697,518	36,107,369	38,783,018	47,483,089	45,073,591	45,909,895	49,230,423	42,236,526	35,155,300	32,400,800	30,109,700
Environmental Quality							43,802,958	54,796,726	58,544,973	63,141,194	79,540,719	99,406,600	83,613,700	74,660,100
Executive Office	3,943,100	3,631,128	4,154,796	4,328,918	4,286,138	4,432,808	4,835,017	4,741,680	5,118,384	5,067,702	5,411,980	5,651,200	5,480,900	5,486,400
Family Independence Agency								1,116,206,920	1,031,605,019	1,128,549,036	1,176,342,559	1,216,438,300	1,155,780,800	1,208,450,700
Higher Education														
Community Colleges	212,490,500	189,638,936	241,593,632	240,000,000	240,000,000	247,800,000	253,009,787	262,186,716	274,845,576	277,907,138	297,158,459	315,011,719	319,596,300	319,732,319
Universities/Financial Aid	1,193,518,700	1,167,699,912	1,297,028,960	1,311,796,990	1,316,593,215	1,354,883,384	1,410,091,564	1,491,455,863	1,558,484,506	1,605,499,417	1,675,344,915	1,785,850,608	1,812,668,500	1,811,997,316
History, Arts and Libraries													64,609,100	62,675,300
Information Technology														0
Judiciary	111,835,200	108,010,363	114,591,806	120,322,652	123,161,004	127,670,370	134,920,282	141,946,079	147,156,019	154,116,508	166,831,336	170,316,800	175,223,900	178,818,100
Labor	75,660,885	52,434,798	34,264,409	30,842,500	29,404,187	29,935,652	26,278,836							
Legislature	74,401,000	72,962,102	81,283,852	82,201,731	85,129,779	83,429,886	87,443,092	87,449,913	89,687,113	95,852,029	104,837,979	104,978,900	122,359,200	122,842,800
Legislative Auditor General	8,655,100	8,471,200	8,710,700	8,830,224	10,130,116	10,496,901	10,915,285	10,749,956	10,924,847	11,807,717	12,566,935	13,183,500		
Library of Michigan	26,497,900	23,904,895	24,480,294	24,751,231	25,647,977	27,222,584	26,817,219	27,530,263	29,123,342	30,245,359	30,892,225	35,197,400		
Licensing and Regulation	11,134,881	11,849,800												
Management and Budget	50,549,100	51,951,631	28,874,226	32,310,561	29,384,442	32,530,866	51,872,600	55,682,772	47,683,349	49,797,993	66,658,586	56,026,000	43,868,200	43,372,700
Aging	23,474,900	21,080,813	17,755,839	17,933,831	20,043,155	22,962,734	23,350,103	24,782,646						
Mental Health	905,751,589	934,325,306	849,167,049	911,051,398	967,232,805	666,682,724	1,074,733,387							
Michigan Biologic Products								16,030						
Michigan Jobs Commission				1,032,715	14,606,768	33,697,834	81,620,151	99,573,779	107,076,910	148,975,478				
Michigan Strategic Fund											45,730,157	65,274,900	60,156,200	46,080,200
Military and Veterans Affairs	12,269,754	14,689,670	26,544,986	31,050,576	32,832,674	34,151,401	34,763,836	38,616,432	34,930,121	39,199,596	39,377,632	41,647,700	40,039,500	36,455,400
Natural Resources	135,121,951	104,667,569	97,337,677	93,105,133	103,914,404	188,233,744	52,633,781	48,809,945	50,465,267	48,785,001	72,456,134	53,678,800	45,313,100	45,549,100
Public Health	147,716,800	145,770,346	133,453,356	138,948,296	152,185,326	180,077,681	181,656,107							
School Aid	749,134,100	967,052,014	849,491,226	1,086,223,027	709,557,837	664,914,900	596,352,000	277,947,800	375,967,757	419,597,281	420,113,853	385,613,500	198,413,500	198,413,500
Social Services	2,603,816,358	2,378,115,326	2,086,078,906	2,052,204,164	2,103,824,477	2,163,749,837	2,373,218,724							
State	15,954,100	16,677,092	16,550,181	13,646,700	15,093,600	17,375,557	17,554,682	21,679,651	58,564,938	62,396,584	60,328,935	66,804,600	17,718,700	17,741,300
State Police	185,279,819	187,846,345	201,315,020	204,068,831	210,130,058	228,661,359	246,496,416	265,080,734	246,395,418	261,544,659	275,450,994	321,355,600	292,620,000	289,946,800
Transportation	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Treasury	51,678,000	53,504,720	50,171,257	52,106,999	64,313,215	41,993,914	71,336,726	57,509,123	59,341,217	27,321,315	79,947,653	69,103,000	53,491,000	64,293,800
Debt Service	48,824,200	73,446,930	51,217,172	55,145,651	40,689,662	128,023,922	141,845,223	163,367,000	116,440,891	115,964,014	84,918,450	90,870,500	105,295,000	59,586,400
Various State Agency Reductions														(50,000,000)
TOTALS	7,803,273,168	7,775,168,824	7,405,949,895	7,822,724,088	7,719,379,314	7,838,530,542	8,569,213,695	8,419,958,828	8,473,820,829	9,028,069,506	9,404,648,339	9,744,582,627	9,265,590,400	9,235,348,235

Consensus Economic Outlook

The economic and revenue outlook were agreed to at the January 15, 2002 Consensus Revenue Estimating Conference by the Administration, House Fiscal Agency, and Senate Fiscal Agency. The current economic downturn and subsequent recovery are forecast to be mild compared to previous contractions and expansions.

2001 U.S. Economic Review

The National Bureau of Economic Research declared that U.S. economy fell into recession in March 2001, ending the longest recorded U.S. economic expansion of ten years. Real GDP growth slowed by mid-2001 and then declined over the second half of the year. In 2001, real GDP rose only 1.0 percent, compared with growth exceeding 4.0 percent in the four previous years. Business fixed investment fell sharply, declining an estimated 3.6 percent in 2001 after eight straight years of growth above 8.0 percent. Real consumption grew 2.9 percent after three straight years of near 5.0 percent growth. The employment situation worsened in 2001. U.S. employment fell by 1.1 million jobs while the unemployment rate rose to 5.8 percent, its highest level in seven years. Automakers made the most aggressive production cuts in a decade and offered zero percent financing to boost sales and realign vehicle inventories. As a result 17.0 million light vehicles were sold in 2001 making it the second best year in history.

By December, many economic indicators suggested the economy was turning the corner toward recovery. New unemployment claims had fallen sharply and employment declines slowed.

2001 Michigan Economic Review

The U.S. economic downturn affected Michigan causing wage and salary employment to decline 0.2 percent and manufacturing employment to decline 4.2 percent in 2001. The Michigan unemployment rate averaged 5.0 percent in 2001, up from 3.6 percent a year ago but substantially below previous recession peak rates. In the 1982 and 1990-1991 recessions, the Michigan unemployment rate rose to 15.5 percent and 9.3 percent, respectively.

2002 and 2003 U.S. Economic Outlook

The U.S. economic recovery is forecast to begin in early 2002. Real GDP is projected to rise 0.4 percent in 2002, and accelerate to 3.1 percent growth in 2003. (See Table L-1). Light vehicle sales are forecast to decline to 15.3 million units in 2002, before rebounding to 16.4 million units in 2003.

Three factors softened the downturn and will help bring about recovery. The Federal Reserve cut the target federal funds interest rate 11 times in 2001, lowering the rate to 1.75 percent, its lowest level in 40 years. The federal government has enacted a massive multi-year tax cut and increase in spending. Oil prices have

fallen by one-third and natural gas prices by one-half compared with a year ago.

The 90-day Treasury bill rate is forecast to average 1.7 percent in 2002 before rising to 3.1 percent in 2003 while the AAA corporate bond rate is forecast to average 6.5 percent in 2002 and 6.8 percent in 2003. Consumer price inflation is forecast to slow to 1.9 percent in 2002 before rising to 3.0 percent in 2003. The unemployment rate is forecast to increase to 6.4 percent in 2002 and then decline to 6.2 percent in 2003.

2002 and 2003 Michigan Economic Outlook

Michigan wage and salary employment is forecast to decline by 33,000 (0.7 percent) in 2002, and is forecast to rise by 79,000 (1.7 percent) in 2003. Michigan personal income growth is forecast to slow to 2.4 percent in 2002, and to post solid growth of 5.3 percent in 2003. Wage and salary income is projected to rise 1.9 percent in 2002 before accelerating to 5.9 percent growth in 2003.

Inflation, as measured by the Detroit CPI, is forecast to be a moderate 2.4 percent in 2002 and 3.0 percent in 2003. As a result, real Michigan personal income (inflation adjusted) is expected to remain unchanged in 2002 before rising a solid 2.2 percent in 2003. Michigan wages and salaries are expected to grow to 1.7 percent in 2002 and then accelerate to 4.9 percent in FY 2003. Disposable income is expected to rise 3.4 percent in FY 2002 before rising 5.0 percent in FY 2003. The inflation rate is expected to fall to 2.1 percent FY 2002 and then rise to 2.9 percent in FY 2003.

Forecast Risks

There is a substantial amount of federal economic stimulus in the pipeline - a near zero percent federal funds interest rate and the sizeable tax cut package. These factors could accelerate economic growth faster than projected. Furthermore, the federal government could enact additional economic stimulus, which would accelerate growth. Stronger than expected stock market growth could improve both investors' and businesses' balance sheets and stimulate more economic growth. Stronger than expected growth abroad would boost U.S. economic growth.

The weakening employment situation, high debt loads or unexpected stock market declines could curb consumption more than expected. Excess capacity and greater business pessimism could restrain business spending and delay or weaken the recovery.

Consensus Economic Forecast

January 2002

	Calendar 2000 Actual	Calendar 2001 Forecast	Percent Change from Prior Year	Calendar 2002 Forecast	Percent Change from Prior Year	Calendar 2003 Forecast	Percent Change from Prior Year
United States							
Real Gross Domestic Product (Billions of Chained 1996 Dollars)	\$9,224	\$9,318	1.0%	\$9,355	0.4%	\$9,645	3.1%
Implicit Price Deflator GDP (1996 = 100)	107.0	109.3	2.2%	110.7	1.2%	112.7	1.8%
Consumer Price Index (1982-84 = 100)	172.2	177.1	2.8%	180.5	1.9%	185.9	3.0%
3-month Treasury Bills Interest Rate (percent)	5.9	3.4		1.7		3.1	
Aaa Corporate Bonds Interest Rate (percent)	7.6	7.1		6.5		6.8	
Unemployment Rate - Civilian (percent)	4.0	4.8		6.4		6.2	
Light Vehicle Sales (millions of units)	17.2	17.0	-1.5%	15.3	-9.9%	16.4	7.3%
Passenger Car Sales (millions of units)	8.9	8.4	-4.6%	7.4	-12.4%	7.9	7.0%
Light Truck Sales (millions of units)	8.4	8.5	1.7%	7.9	-7.4%	8.5	7.6%
Import Share of Light Vehicles (percent)	16.6	18.0		18.3		17.6	
Michigan							
Wage and Salary Employment (thousands)	4,679	4,672	-0.2%	4,639	-0.7%	4,718	1.7%
Unemployment Rate (percent)	3.6	5.0		6.5		6.1	
Personal Income (millions of dollars)	\$289,390	\$297,782	2.9%	\$304,929	2.4%	\$321,090	5.3%
Real Personal Income (millions of 1982-84 dollars)	\$170,430	\$170,544	0.1%	\$170,544	0.0%	\$174,353	2.2%
Wages and Salaries (millions of dollars)	\$175,747	\$179,376	2.1%	\$182,784	1.9%	\$193,569	5.9%
Detroit Consumer Price Index (1982-84 = 100)	169.8	174.6	2.8%	178.8	2.4%	184.2	3.0%

Revenue Estimates

Fiscal Year 2001 Revenue

The U.S. economic slowdown that began in March of 2001 and enacted tax cuts reduced FY 2001 revenues. Preliminary fiscal year 2001 totals indicate that combined GF-GP and SAF revenue fell by 3.5 percent to \$18,983.6 million. Net General Fund-General Purpose (GF-GP) revenue decreased 8.2 percent from FY 2000 to \$8,989.5 million in 2001. Net FY 2001 School Aid Fund (SAF) revenue totals \$9,994.1 million, representing 1.1 percent growth over FY 2000. The figures presented in this *Executive Budget* reflect all enacted tax cuts and year-end book-closing adjustments.

Fiscal Year 2002 and Fiscal Year 2003 Revenue Estimates

On January 15, 2002, the Administration and the House and Senate Fiscal Agencies reached a consensus on projected revenues for FY 2002 and FY 2003. Agreement was reached on baseline revenue forecasts and the impact of enacted tax cuts. The January 2002 Consensus revenue estimates are used for the Governor's *Executive Budget*. The Consensus economic forecast calls for economic growth to begin to rebound in FY 2002 followed by stronger growth in FY 2003. This pattern is reflected in the revenue estimates. The economic and revenue forecasts will be reviewed again at the May consensus conference before the final budget bills are passed by the Legislature.

For FY 2002, baseline GF-GP revenue is estimated to increase by 1.0 percent to \$9,055.4 million. Baseline SAF revenue is forecast to be \$10,233.4 million, a 2.4 percent increase over FY 2001. After enacted tax cuts are factored in, net GF-GP revenue is expected to decline by 2.6 percent to \$8,758.3 million in FY 2002 and net SAF revenue is expected to increase by 2.2 percent to \$10,213.4 million. The Consensus SAF revenue total is the sum of SAF taxes and the proceeds from the Michigan lottery. Other transfers to the SAF are not part of the consensus process.

The consensus baseline FY 2003 GF-GP revenue is estimated to be \$9,452.0 million, a 4.4 percent increase over FY 2002. After enacted tax cuts and proposed changes are factored in, net GF GP revenue is expected to be \$8,727.2 million, a 0.4 percent decline from FY 2002. The consensus baseline FY 2003 SAF revenue is forecast to be \$10,632.6 million, a 3.9 percent increase over FY 2002. Net SAF revenue is expected to increase to \$11,090.3 million after enacted tax cuts and proposed changes.

Overall FY 2003 Revenue

Total net revenue for all funds is estimated to be \$38.7 billion in FY 2003. Table M-2 presents a summary of revenues by fund. The Detailed Statement of General and Special Revenue Funds presents information for FY 2000 through FY 2003.

Projected Revenues
FY 2002 - 2003
(millions)

	<u>FY 2002 - 2003</u>
General Fund - General Purpose	
Consensus Estimate	8,724.2
Proposed Diesel Fuel Tax Change	3.0
Total General Fund - General Purpose	<u>8,727.2</u>
School Aid Fund	
Consensus Estimate	10,596.6
Proposed State Education Tax Change	493.7
Transfers and Federal Aid	1,579.4
Total SAF Revenue	<u>12,669.7</u>
Transportation Funds	4,640.8
General Fund - Special Purpose	11,962.3
Special Revenue and Permanent Funds	<u>876.0</u>
Sub-Total All Funds	38,876.0
Other Revenue Sources	<u>1,035.2</u>
Gross Total All Resources	39,911.2
Less Interfund Transfers (excluding GF-GP)	<u>(1,199.1)</u>
Net Total All Resources	\$ 38,712.1

Office of Revenue and Tax Analysis
Michigan Department of Treasury
January 2002

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 1999 - 2000	PRELIMINARY FY 2000 - 2001	ESTIMATES FY 2001 - 2002	ESTIMATES FY 2002 - 2003
02/04/02				
GENERAL FUND - GENERAL PURPOSE REVENUE				
TAXES				
Individual Income ⁽¹⁾	6,436,299,494	6,116,129,210	6,097,700,000	6,151,000,000
Less: Refunds	(1,243,277,650)	(1,297,384,530)	(1,353,200,000)	(1,412,900,000)
Net Individual Income	5,193,021,844	4,818,744,680	4,744,500,000	4,738,100,000
Single Business	2,324,375,702	2,022,266,402	1,898,700,000	1,869,700,000
Sales ⁽²⁾	151,495,744	78,852,625	87,700,000	115,400,000
Use	896,472,027	887,513,102	934,700,000	959,700,000
Insurance Company Premium Retaliatory	191,942,634	200,738,758	214,000,000	224,000,000
Cigarette Excise ⁽³⁾	148,842,510	146,201,281	143,500,000	140,400,000
Utility Property	154,882,396	154,338,105	152,000,000	155,000,000
Penalties and Interest	137,797,034	157,377,124	155,000,000	155,000,000
Intangibles	326,169	(334,203)	0	0
Estate / Inheritance	177,400,552	155,466,094	127,000,000	76,000,000
Beer and Wine Excise	50,036,123	50,357,279	51,000,000	51,500,000
Oil and Gas Severance	43,885,582	60,138,551	43,000,000	45,000,000
Liquor Specific ⁽⁴⁾	28,067,155	29,344,661	29,600,000	29,800,000
Other	(1,623,067)	(28,717)	0	0
Enhanced Enforcement and ACS ⁽⁵⁾	(72,838,269)	(73,426,128)	(75,000,000)	(75,000,000)
TOTAL GF - GP TAXES	9,424,084,135	8,687,549,614	8,505,700,000	8,484,600,000

⁽¹⁾ See also Special Purpose Revenue.

⁽²⁾ See Special Purpose Revenue, School Aid Fund, and Comprehensive Transportation Fund.

⁽³⁾ See also Special Purpose Revenue and School Aid Fund.

⁽⁴⁾ See also School Aid Fund.

⁽⁵⁾ Restricted revenues supporting Treasury collection activities are shown here as negatives.

Prepared by Office of Revenue and Tax Analysis, Michigan Department of Treasury

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 1999 - 2000	PRELIMINARY FY 2000 - 2001	ESTIMATES FY 2001 - 2002	ESTIMATES FY 2002 - 2003
02/04/02				
GENERAL FUND - GENERAL PURPOSE REVENUE				
NON-TAX REVENUE				
Federal Aid	33,038,150	24,632,645	30,000,000	30,000,000
Local Agencies	1,805,605	1,766,601	1,800,000	1,800,000
Services	6,389,525	4,770,240	4,800,000	4,800,000
Licenses & Permits	28,605,934	23,501,757	24,000,000	24,000,000
Miscellaneous	42,841,596	93,255,286	50,000,000	50,000,000
Interest and Investment Profits	64,101,631	49,965,277	(10,000,000)	(20,000,000)
TOTAL GF - GP NON-TAX REVENUE	176,782,442	197,891,805	100,600,000	90,600,000
TRANSFERS FROM OUTSIDE GF & SR FUNDS				
Other Interfund Transfers Received (School Bond Loan)	86,065,713	370,443,922	74,915,000	54,901,000
Liquor Purchase Revolving Fund	119,650,324	118,832,050	115,000,000	115,000,000
Transfers From Lottery Charitable Gaming and Other Funds	7,018,771	9,392,966	9,000,000	9,000,000
Unclaimed and Abandoned Property	40,182,611	30,360,496	28,000,000	28,000,000
TOTAL GF - GP TRANSFERS	252,917,419	529,029,435	226,915,000	206,901,000
General Fund - General Purpose Summary				
GF - GP Tax Revenue	9,424,084,135	8,687,549,614	8,505,700,000	8,484,600,000
GF - GP Non-Tax Revenue	176,782,442	197,891,805	100,600,000	90,600,000
GF - GP Transfers	252,917,419	529,029,435	226,915,000	206,901,000
TOTAL GENERAL FUND-GENERAL PURPOSE before Interfund Transfers	9,853,783,996	9,414,470,854	8,833,215,000	8,782,101,000
LESS: Interfund Transfers	(86,065,713)	(370,443,922)	(74,915,000)	(54,901,000)
NET TOTAL GENERAL FUND-GENERAL PURPOSE	9,767,718,284	9,044,026,931	8,758,300,000	8,727,200,000
Excluding inter-fund transfers to GF-GP				

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 1999 - 2000	PRELIMINARY FY 2000 - 2001	ESTIMATES FY 2001 - 2002	ESTIMATES FY 2002 - 2003
	02/04/02			
GENERAL FUND-SPECIAL PURPOSE REVENUE				
TAXES				
Airport Parking	18,756,701	17,059,457	17,000,000	12,000,000
Cigarette - Health & Safety Fund - Counties	23,693,394	23,320,907	30,051,000	29,420,000
Cigarette - Health & Safety Fund - Indigent Care	7,795,555	7,666,009	7,525,000	7,350,000
Cigarette - Healthy Michigan	36,228,342	35,830,924	35,040,000	34,326,000
Commercial Mobile Radio Service	12,302,663	28,755,670	30,000,000	31,000,000
Horse Race Wagering	13,493,267	12,518,282	11,862,000	11,402,000
Individual Income Tax Campaign Fund	1,185,531	1,297,245	1,500,000	1,500,000
Income Tax Credit Expenditure	475,100,000	505,800,000	0	0
Sales Tax Revenue Sharing	1,470,138,395	1,559,285,671	1,599,200,000	1,651,200,000
Sales Tax-Health Initiative	9,000,000	9,000,000	9,000,000	9,000,000
Use Tax Prescription Drug Credit	6,007,801	1,546,723	2,000,000	0
Convention Hotel Accommodation	45,630,408	45,961,799	47,500,000	49,500,000
Various Tax Out-of-Period Refunds	18,961,149	4,044,252	663,000	663,000
Enhanced Enforcement and ACS	72,838,269	73,426,128	75,000,000	75,000,000
TOTAL GF - SP TAXES	2,211,131,477	2,325,513,067	1,866,341,000	1,912,361,000
NON-TAX REVENUE				
Local Agencies	126,267,533	104,909,289	123,200,000	106,464,000
Special Medicaid Reimbursement	1,059,343,027	1,155,373,802	1,111,538,000	867,214,000
Services	103,115,920	109,875,139	113,954,000	116,872,000
Licenses & Permits	194,438,770	196,230,100	209,904,000	208,573,000
Miscellaneous	322,319,843	368,691,323	346,374,000	349,844,000
Transfers From Other Funds	111,127,467	98,019,074	58,202,000	60,150,000
TOTAL GF - SP NON-TAX REVENUE	1,916,612,560	2,033,098,727	1,963,172,000	1,709,117,000

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 1999 - 2000	PRELIMINARY FY 2000 - 2001	ESTIMATES FY 2001 - 2002	ESTIMATES FY 2002 - 2003
02/04/02				
GENERAL FUND-SPECIAL PURPOSE REVENUE				
FEDERAL AID NOT ELSEWHERE ITEMIZED:				
Federal Aid: Agriculture	3,884,565	7,577,406	7,721,000	8,282,000
Federal Aid: Attorney General	3,422,784	3,625,596	7,625,000	7,625,000
Federal Aid: Capital Outlay excluding Transportation	1,606,630	3,617,204	13,935,000	1,492,000
Federal Aid: Career Development	294,573,797	388,868,470	463,700,000	472,569,000
Federal Aid: Civil Rights	481,320	823,550	934,000	934,000
Federal Aid: Civil Service	3,483,237	3,244,148	4,779,000	4,779,000
Federal Aid: Community Health	4,146,368,269	4,630,852,348	4,443,253,000	4,801,713,000
Federal Aid: Consumer and Industry Services	36,480,130	38,075,767	128,191,000	134,340,000
Federal Aid: Corrections	18,699,860	21,031,280	22,409,000	34,653,000
Federal Aid: Education	790,729,064	769,250,160	942,579,000	39,863,000
Federal Aid: Environmental Quality	33,262,364	34,731,643	88,026,000	79,434,000
Federal Aid: Family Independence Agency	2,033,437,256	2,276,937,969	2,501,290,000	2,604,622,000
Federal Aid: Higher Education - Grants	2,494,234	3,195,572	4,900,000	5,500,000
Federal Aid: Judiciary	2,038,970	2,032,207	3,363,000	3,865,000
Federal Aid: History, Arts and Libraries	4,533,154	4,229,946	7,112,000	7,111,000
Federal Aid: Management and Budget	855,622	97,359	447,000	300,000
Federal Aid: Military Affairs	34,325,290	35,576,449	36,586,000	47,415,000
Federal Aid: Natural Resources	20,560,850	22,765,826	29,336,000	28,728,000
Federal Aid: State	617,890	759,314	1,304,000	1,320,000
Federal Aid: State Police	30,799,885	38,838,485	82,667,000	45,571,000
Federal Aid: Treasury	0	0	0	10,699,000
TOTAL FEDERAL AID excluding Transportation	7,462,655,170	8,286,130,699	8,790,157,000	8,340,815,000
General Fund - Special Purpose Summary				
GF - SP Tax Revenue	2,211,131,477	2,325,513,067	1,866,341,000	1,912,361,000
GF - SP Non-Tax Revenue	1,916,612,560	2,033,098,727	1,963,172,000	1,709,117,000
GF - SP Federal Aid	7,462,655,170	8,286,130,699	8,790,157,000	8,340,815,000
TOTAL GENERAL FUND-SPECIAL PURPOSE	11,590,399,207	12,644,742,492	12,619,670,000	11,962,293,000
LESS: Interfund Transfers	(111,127,467)	(98,019,074)	(58,202,000)	(60,150,000)
NET TOTAL GENERAL FUND-SPECIAL PURPOSE	11,479,271,740	12,546,723,418	12,561,468,000	11,902,143,000
Excluding inter-fund transfers to GF-SP				

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 1999 - 2000	PRELIMINARY FY 2000 - 2001	ESTIMATES FY 2001 - 2002	ESTIMATES FY 2002 - 2003
	02/04/02			
SCHOOL AID FUND REVENUE				
TAXES and LOTTERY				
Sales Tax	4,577,160,514	4,631,384,280	4,757,500,000	4,976,300,000
Use Tax	452,870,715	444,535,614	468,300,000	478,300,000
Income Tax Earmarking	1,968,377,491	1,955,327,006	1,982,800,000	2,067,800,000
State Education Tax	1,381,420,280	1,489,551,546	1,548,000,000	2,108,524,000
Real Estate Transfer Tax	257,092,882	252,893,782	251,000,000	264,000,000
Cigarette Excise Tax	372,845,476	367,137,363	359,500,000	351,900,000
Other Tobacco Products Tax	14,806,240	15,925,967	16,000,000	16,000,000
Industrial & Commercial Facilities Tax	152,499,786	131,261,057	133,000,000	135,000,000
Casino Wagering Tax	53,144,652	75,414,900	83,000,000	83,000,000
Liquor Excise Tax	27,233,401	28,404,040	29,600,000	29,800,000
Other Specific Taxes	13,370,157	15,235,342	14,700,000	14,700,000
Sub-Total SAF Taxes	9,270,821,593	9,407,070,895	9,643,400,000	10,525,324,000
NON-TAX REVENUE				
Transfer from Lottery Ticket Sales	618,513,554	587,009,374	570,000,000	565,000,000
Federal Aid	121,550,234	148,626,995	203,000,000	1,348,306,000
Local Revenue	0	0	0	700,000
Transfer from Counter-Cyclical Budget & Economic Stabilization	32,000,000	32,000,000	382,000,000	32,000,000
Transfer from General Fund	420,113,853	385,227,876	198,414,000	198,414,000
Recovery of Prior Year State Aid and Receivables	16,338,186	117,379,697	0	0
Sub-Total SAF Other Source Revenues	1,208,515,826	1,270,243,941	1,353,414,000	2,144,420,000
TOTAL SCHOOL AID FUND before Interfund Transfers	10,479,337,419	10,677,314,836	10,996,814,000	12,669,744,000
LESS: Interfund Transfers	(452,113,853)	(417,227,875)	(580,414,000)	(230,414,000)
NET TOTAL SCHOOL AID FUND	10,027,223,566	10,260,086,961	10,416,400,000	12,439,330,000
Excluding inter-fund transfers to School Aid Fund				

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 1999 - 2000	PRELIMINARY FY 2000 - 2001	ESTIMATES FY 2001 - 2002	ESTIMATES FY 2002 - 2003
	02/04/02			
SPECIAL REVENUE FUNDS				
Bottle Deposits ⁽⁷⁾	41,480,004	53,156,594	34,581,000	30,383,000
Conservation and Recreation Bond Proceeds	86,667,990	69,669,857	2,378,000	2,378,000
Game and Fish Protection ⁽⁷⁾	60,226,591	64,301,381	62,378,000	62,423,000
Game and Fish Protection Trust	13,244,858	21,532,552	16,625,000	16,675,000
Forest Development	24,290,033	22,742,278	22,380,000	22,991,000
Marine Safety Trust	5,314,488	5,562,440	5,024,000	5,099,000
Michigan State Waterways ⁽⁷⁾	25,866,285	26,370,272	23,675,000	23,910,000
Nongame Fish and Wildlife ⁽⁷⁾	3,282,182	547,770	653,000	638,000
State Park Improvement	28,930,634	27,834,067	30,931,000	30,935,000
MI Underground Storage Tank Financial Assistance ⁽⁸⁾	66,953,391	62,727,422	61,201,000	63,300,000
Construction Code	8,916,247	12,167,767	8,806,000	8,813,000
Construction Lien	644,457	624,948	530,000	480,000
Employment Security Administration ⁽⁷⁾	156,598,006	125,937,284	116,878,000	127,484,000
Safety, Education & Training	5,280,353	6,637,109	6,600,000	6,600,000
Workplace Health and Safety	944,371	0	0	0
State Casino Gaming	19,546,291	27,267,156	27,926,000	28,194,000
Counter-Cyclical Budget & Economic Stabilization ⁽⁷⁾	173,950,612	66,735,511	46,900,000	23,700,000
Merit Award Trust	77,528,069	139,128,085	246,400,000	252,900,000
Tobacco Settlement Trust	181,418,413	141,608,475	85,101,000	85,000,000
Miscellaneous Special Revenue Funds	0	235,057	0	0
PERMANENT FUNDS				
Children's Trust ⁽⁷⁾	15,814,059	3,640,960	2,370,000	2,370,000
Civilian Conservation Corps Endowment	1,373,809	1,187,030	968,000	941,000
Natural Resources Trust	54,162,319	78,304,047	59,100,000	57,100,000
State Park Endowment ⁽⁷⁾	16,113,066	21,732,505	20,640,000	20,645,000
Veterans Trust	3,317,902	5,127,677	3,040,000	3,040,000
TOTAL SPECIAL REVENUE AND PERMANENT FUNDS	1,071,864,429	984,778,244	885,085,000	875,999,000
LESS: Interfund Transfers	(174,622,891)	(67,763,727)	(39,646,000)	(53,889,000)
NET TOTAL SPECIAL REVENUE AND PERMANENT FUNDS	897,241,538	917,014,517	845,439,000	822,110,000

Excluding inter-fund transfers to Special Revenue Funds

⁽⁷⁾ Includes Transfers in.

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 1999 - 2000	PRELIMINARY FY 2000 - 2001	ESTIMATES FY 2001 - 2002	ESTIMATES FY 2002 - 2003
02/04/02				
TRANSPORTATION: AERONAUTICS FUND 114				
Aviation Fuel Tax	7,732,150	6,705,528	6,600,000	6,700,000
Federal Aid	58,507,956	86,647,081	138,722,000	160,000,000
Local Agencies	11,158,822	21,440,412	41,000,000	43,000,000
Transfers and Other	16,418,716	19,017,540	1,392,000	7,406,000
TOTAL AERONAUTICS FUND	93,817,643	133,810,561	187,714,000	217,106,000
TRANSPORTATION: TRUNKLINE FUND 116				
Federal Aid	696,173,676	655,096,285	928,584,000	936,526,000
Local Agencies	32,519,518	36,205,412	43,320,000	34,473,000
Licenses and Permits	20,356,742	18,897,837	19,445,000	19,540,000
Transfer from Michigan Transportation & Other Funds	865,109,513	808,802,065	671,653,000	692,490,000
Interest from Common Cash Investment	16,485,857	13,229,811	8,125,000	8,000,000
Other	16,003,281	20,244,254	17,190,000	21,101,000
TOTAL TRUNKLINE FUND	1,646,648,587	1,552,475,665	1,688,317,000	1,712,130,000
TRANSPORTATION: BLUE WATER BRIDGE FUND 118				
Tolls and Rentals	11,408,365	11,478,360	11,000,000	11,500,000
Interest From Common Cash Investment and Other	5,126,272	1,014,912	553,000	600,000
TOTAL BLUE WATER BRIDGE TRANSPORTATION FUND	16,534,638	12,493,272	11,553,000	12,100,000
TRANSPORTATION: MICHIGAN TRANSPORTATION FUND 119				
Diesel and Motor Carrier Fuel Tax	143,436,547	133,150,429	135,000,000	183,000,000
Gasoline and Liquified Petroleum GasTax	923,031,008	934,460,096	944,150,000	956,970,000
Motor Vehicle Registration Tax	755,096,882	777,903,036	810,000,000	846,000,000
Licenses, Permits, Other and Transfers	57,735,420	57,041,898	55,245,000	56,016,000
Interest From Common Cash Investment	13,270,579	10,984,755	6,500,000	7,200,000
TOTAL MICHIGAN TRANSPORTATION FUND	1,892,570,436	1,913,540,214	1,950,895,000	2,049,186,000
TRANSPORTATION: COMPREHENSIVE TRANSPORTATION FUND 120				
Sales Tax	69,699,374	73,728,496	71,500,000	73,000,000
Federal Aid	18,006,009	31,986,867	55,900,000	50,650,000
Transfer from Michigan Transportation & Other Funds	158,052,021	160,300,001	156,688,000	162,194,000
Interest From Common Cash Investment and Other	3,889,489	4,640,626	2,648,000	2,860,000
TOTAL COMPREHENSIVE TRANSPORTATION FUND	249,646,892	270,655,989	286,736,000	288,704,000
TRANSPORTATION BOND PROCEEDS	26,632,739	757,185,592	1,572,000	361,530,000
TOTAL TRANSPORTATION REVENUE	3,925,850,935	4,640,161,292	4,126,787,000	4,640,756,000
LESS: Interfund Transfers	(1,023,161,534)	(969,102,066)	(828,341,000)	(854,684,000)
NET TOTAL TRANSPORTATION REVENUE After Transfers	2,902,689,402	3,671,059,226	3,298,446,000	3,786,072,000

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 1999 - 2000	PRELIMINARY FY 2000 - 2001	ESTIMATES FY 2001 - 2002	ESTIMATES FY 2002 - 2003
	02/04/02			
General Fund Summary				
General Fund - General Purpose	9,853,783,996	9,414,470,854	8,833,215,000	8,782,101,000
General Fund - Special Purpose	11,590,399,207	12,644,742,492	12,619,670,000	11,962,293,000
TOTAL GENERAL FUND	21,444,183,204	22,059,213,346	21,452,885,000	20,744,394,000
LESS: Interfund Transfers	(197,193,180)	(468,462,996)	(133,117,000)	(115,051,000)
NET TOTAL GENERAL FUND after transfers	21,246,990,024	21,590,750,349	21,319,768,000	20,629,343,000
Other Funds Summary				
School Aid Fund	10,479,337,419	10,677,314,836	10,996,814,000	12,669,744,000
Special Revenue and Permanent Funds	1,071,864,429	984,778,244	885,085,000	875,999,000
Transportation Revenues	3,925,850,935	4,640,161,292	4,126,787,000	4,640,756,000
TOTAL OTHER FUNDS	15,477,052,783	16,302,254,373	16,008,686,000	18,186,499,000
LESS: Interfund Transfers	(1,649,898,277)	(1,454,093,668)	(1,448,401,000)	(1,138,987,000)
NET TOTAL OTHER FUNDS after transfers	13,827,154,506	14,848,160,705	14,560,285,000	17,047,512,000
All Funds Summary				
Net General Fund	21,246,990,024	21,590,750,349	21,319,768,000	20,629,343,000
Net Other Funds	13,827,154,506	14,848,160,705	14,560,285,000	17,047,512,000
NET TOTAL REVENUE after transfers	35,074,144,530	36,438,911,054	35,880,053,000	37,676,855,000

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 1999 - 2000	PRELIMINARY FY 2000 - 2001	ESTIMATES FY 2001 - 2002	ESTIMATES FY 2002 - 2003
	02/04/02			
NET TOTAL REVENUE after transfers	35,074,144,530	36,438,911,054	35,880,053,000	37,676,855,000
OTHER REVENUE OR NON-CURRENT YEAR SOURCES OF FINANCING				
General Fund Unreserved Balance	0	211,810,000	28,072,000	0
School Aid Fund Unreserved Balance	572,800,000	853,400,000	694,795,700	271,848,000
Special Revenue and Permanent Funds Balances (Available)	144,891,000	255,383,000	221,727,000	295,968,000
Budgeted Non-revenue Items				
Liquor Operations (330)	16,897,588	25,099,083	30,557,000	30,136,000
Lottery Operations (335)	31,084,295	31,320,911	37,662,000	35,922,000
Retirement Operations (762;771,6;783,4;875)	21,572,338	23,371,382	32,684,000	26,999,000
Michigan Higher Education Assistance and Student Loan Authorities	22,681,762	26,900,000	31,790,000	31,397,300
Michigan State Industries (431)	10,798,405	13,180,509	15,794,000	15,958,000
State Building Authority & Capital Outlay Reserve	417,317,250	240,095,302	236,710,000	236,710,000
Group Insurance Fund (440), Flexible Spending & COBRA	6,580,555	6,804,466	7,537,000	7,568,000
Michigan State Housing Development Authority	15,846,280	17,263,740	19,115,000	19,732,000
Michigan Strategic Fund Agency	53,203,200	52,673,200	62,934,000	62,953,000
Sub-Total Budgeted Non-revenue Items and Fund Balances	1,313,672,673	1,757,301,593	1,419,377,700	1,035,191,300
NET TOTAL RESOURCES	36,387,817,203	38,196,212,647	37,299,430,700	38,712,046,300

SUMMARY OF FY2003 EXECUTIVE BUDGET BILLS

	All Funds	GF/GP
AGRICULTURE		
Executive	5,209,500	4,840,800
Departmentwide	1,856,200	1,551,600
Food and Dairy	19,220,200	7,437,600
Animal Industry	5,734,400	5,528,900
Pesticide and Plant Pest Management	13,134,100	6,077,400
Environmental Stewardship	12,797,300	5,339,500
Laboratory Program	11,378,000	5,711,600
Market Development	3,614,000	2,651,000
Fairs and Expositions	18,961,400	23,300
Office of Racing Commissioner	3,641,900	0
Information Technology	1,907,300	1,639,300
TOTAL AGRICULTURE	97,454,300	40,801,000
CAPITAL OUTLAY		
Department of Agriculture	5,000,000	0
Department of Management and Budget	8,096,500	4,096,500
Department of Military Affairs	2,711,700	1,219,700
Department of Natural Resources		
State Park Remodeling and Forest Land Improvements	3,300,000	0
Waterways Boating Program	23,700,000	0
Wildlife Habitat and Maintenance	2,050,000	0
Department of Transportation		
Department Building and Facilities	9,600,000	0
Aeronautics Fund	217,000,000	12,000,000
State Building Authority Rent	291,311,700	287,166,700
TOTAL CAPITAL OUTLAY	562,769,900	304,482,900
CAREER DEVELOPMENT		
Departmental Administration	506,800	506,800
Department Operations	8,446,300	2,438,300
Workforce Development	81,830,100	9,060,300
Career Education Programs	8,385,100	1,797,800
Department Grants	379,505,000	20,876,600
Employment Service Agency	49,203,600	0
Information Technology	6,441,800	0
TOTAL CAREER DEVELOPMENT	534,318,700	34,679,800
COMMUNITY HEALTH		
Departmentwide Administration	58,117,900	39,187,300
Mental Health/Substance Abuse		
Services Administration and Special Projects	24,133,800	14,448,400

SUMMARY OF FY2003 EXECUTIVE BUDGET BILLS

	All Funds	GF/GP
COMMUNITY HEALTH (CON'T)		
Community Mental Health/Substance Abuse Services Programs	1,902,468,900	1,055,069,500
State Psychiatric Hospitals, Centers for Persons with Developmental Disabilities, and Forensic and Prison Mental Health Services	346,567,100	42,664,500
Public Health Administration	7,728,800	2,803,700
Infectious Disease Control	50,343,400	4,888,700
Laboratory Services	13,326,700	6,392,200
Epidemiology	18,442,100	2,327,000
Local Health Administration and Grants	44,682,700	41,389,000
Chronic Disease and Injury Prevention and Health Promotion	34,399,900	1,314,400
Community Living, Children, and Families	116,707,500	30,446,600
Women, Infants, and Children Food and Nutrition Program	169,262,300	0
Children's Special Health Care Services	139,323,300	71,587,600
Office of Drug Control Policy	30,632,600	386,000
Crime Victim Services Commission	23,695,800	515,000
Office of Services to the Aging	93,870,200	36,695,800
Medical Services Administration	46,880,300	16,240,600
Medical Services	5,999,246,300	1,181,492,300
Information Technology	35,834,300	15,212,600
TOTAL COMMUNITY HEALTH	9,155,663,900	2,563,061,200
CONSUMER AND INDUSTRY SERVICES		
Executive Direction	18,415,000	2,073,000
Information Technology	26,117,800	970,300
Fire Safety	4,808,300	1,598,500
Management Services	24,300,500	1,650,600
Financial and Insurance Services	31,634,300	0
Public Service Commission	76,691,900	0
Liquor Control Commission	20,152,200	0
Michigan State Housing Development Authority	106,636,700	0
Tax Tribunal	1,353,200	711,600
Grants	7,421,000	0
Health Regulatory Systems	35,575,400	5,655,100
Regulatory Services	26,034,700	14,785,200
Occupational Regulation	37,350,900	10,000
Employment Relations	3,088,300	3,078,300
Safety and Regulation	25,227,700	7,455,300
Bureau of Worker's Disability and Unemployment Compensation	125,330,200	0
TOTAL CONSUMER AND INDUSTRY SERVICES	570,138,100	37,987,900

SUMMARY OF FY2003 EXECUTIVE BUDGET BILLS

	All Funds	GF/GP
CORRECTIONS		
Executive	27,293,900	10,247,100
Administration and Programs	89,221,500	69,721,100
Field Operations Administration	160,451,500	143,703,900
Community Corrections	47,908,400	28,716,300
Consent Decrees	106,426,300	106,426,300
Health Care	158,150,200	157,963,200
Correctional Facilities Administration	57,233,500	51,632,400
Northern Region Correctional Facilities	330,724,800	329,611,500
Southeastern Region Correctional Facilities	375,487,100	370,685,300
Southwestern Region Correctional Facilities	344,422,200	343,017,700
Information Technology	16,143,100	16,134,100
TOTAL CORRECTIONS	1,713,462,500	1,627,858,900
EDUCATION		
State Board of Education/Office of the Superintendent	2,524,400	1,924,200
Central Support	7,265,000	2,911,400
School Support Services	5,040,800	228,100
Information Technology	3,288,100	2,056,100
Special Education Services	11,477,300	302,400
Lansing, Michigan School for the Blind Former Site	1,267,000	0
Michigan Schools for the Deaf and Blind	9,902,100	0
Professional Preparation Services	3,185,000	0
Field Services	5,379,700	405,700
Office of School Excellence	8,968,100	2,074,600
Government Services	1,284,800	455,900
Safe Schools and Administrative Law	1,337,000	800,300
Education Options, Charters, and Choice	1,312,700	426,100
Grants and Distributions	27,664,000	18,524,900
TOTAL EDUCATION	89,896,000	30,109,700
ENVIRONMENTAL QUALITY		
Executive	2,335,900	1,553,800
Department Support Services	22,352,000	10,760,800
Geological Survey	9,635,800	132,500
Land and Water Management	13,638,500	7,093,900
Air Quality	20,778,400	6,878,000
Surface Water Quality	23,107,500	8,932,000
Drinking Water Protection and Radiological Health	23,378,500	8,212,800
Low Level Radioactive Waste Authority	769,700	0
Environmental Response	49,775,700	250,000
Storage Tanks	77,446,700	3,042,800

SUMMARY OF FY2003 EXECUTIVE BUDGET BILLS

	All Funds	GF/GP
ENVIRONMENTAL QUALITY (CON'T)		
Waste Management	12,266,800	5,389,900
Environmental Assistance	10,894,300	513,100
Criminal Investigations	1,904,900	1,510,000
Grants	129,176,000	17,483,500
Information Technology	7,364,900	2,907,000
TOTAL ENVIRONMENTAL QUALITY	404,825,600	74,660,100
FAMILY INDEPENDENCE AGENCY		
Executive Operations	166,801,600	48,927,600
Family Independence Services Administration	255,532,700	21,015,900
Child and Family Services	604,053,900	198,960,500
Juvenile Justice Services	240,126,100	173,201,400
Local Office Staff and Operations	450,635,600	163,015,900
Disability Determination Services	73,803,700	3,078,000
Central Support Accounts	252,685,900	90,704,000
Public Assistance	1,817,800,000	479,829,700
Information Technology	94,966,300	29,717,700
TOTAL FAMILY INDEPENDENCE AGENCY	3,956,405,800	1,208,450,700
GENERAL GOVERNMENT		
ATTORNEY GENERAL		
Attorney General Operations	61,960,700	34,322,500
Information Technology	878,200	878,200
TOTAL ATTORNEY GENERAL	62,838,900	35,200,700
CIVIL RIGHTS		
Civil Rights Operations	14,266,900	13,332,900
Information Technology	1,082,000	1,082,000
TOTAL CIVIL RIGHTS	15,348,900	14,414,900
CIVIL SERVICE		
Civil Service Operations	28,755,700	9,209,000
Information Technology	3,461,600	1,440,000
TOTAL CIVIL SERVICE	32,217,300	10,649,000

SUMMARY OF FY2003 EXECUTIVE BUDGET BILLS

	All Funds	GF/GP
EXECUTIVE OFFICE		
Executive Office Operations	5,486,400	5,486,400
TOTAL EXECUTIVE OFFICE	5,486,400	5,486,400
INFORMATION TECHNOLOGY		
Information Technology Services	333,453,600	0
TOTAL INFORMATION TECHNOLOGY	333,453,600	0
LEGISLATURE		
Legislature	95,999,300	94,006,200
Legislative Council	16,088,700	15,688,700
Legislative Retirement System	4,225,400	3,115,600
Property Management	10,032,300	10,032,300
TOTAL LEGISLATURE	126,345,700	122,842,800
MANAGEMENT AND BUDGET		
Management and Budget Services	140,727,000	21,277,700
Statewide Appropriations	2,005,000	0
Special Programs	18,468,400	3,134,600
Information Technology	27,434,300	18,960,400
TOTAL MANAGEMENT AND BUDGET	188,634,700	43,372,700
STATE		
Executive Direction	2,477,900	845,000
Department Services	20,731,700	116,900
Regulatory Services	19,752,300	197,600
Customer Delivery Services	100,258,700	6,974,500
Election Regulation	4,291,700	4,291,700
Departmentwide Appropriations	11,271,100	3,326,000
Information Technology	21,044,700	1,989,600
TOTAL STATE	179,828,100	17,741,300
TREASURY		
Executive Direction	1,344,300	1,054,000
Departmentwide Appropriations	8,765,000	4,785,300
Local Government Programs	11,809,700	6,439,700
Tax Programs	62,119,800	9,147,200
Banking and Management Services	29,209,600	9,046,800
Financial Programs	75,949,300	1,857,700

SUMMARY OF FY2003 EXECUTIVE BUDGET BILLS

	All Funds	GF/GP
TREASURY (CON'T)		
Debt Service	59,586,400	59,586,400
Grants	110,446,100	14,946,100
State Lottery	32,197,600	0
Casino Gaming	16,630,200	0
Revenue Sharing	1,538,800,000	10,000,000
Information Technology	21,208,300	7,017,000
TOTAL TREASURY	1,968,066,300	123,880,200
TOTAL GENERAL GOVERNMENT	2,912,219,900	373,588,000
HIGHER EDUCATION		
COMMUNITY COLLEGES		
Alpena Community College	5,311,973	5,311,973
Bay de Noc Community College	5,129,944	5,129,944
Delta College	14,813,864	14,813,864
Glen Oaks Community College	2,485,512	2,485,512
Gogebic Community College	4,365,123	4,365,123
Grand Rapids Community College	18,633,380	18,633,380
Henry Ford Community College	22,708,494	22,708,494
Jackson Community College	12,570,441	12,570,441
Kalamazoo Valley Community College	12,825,971	12,825,971
Kellogg Community College	10,076,975	10,076,975
Kirtland Community College	3,058,415	3,058,415
Lake Michigan College	5,423,461	5,423,461
Lansing Community College	32,223,042	32,223,042
Macomb Community College	34,381,003	34,381,003
Mid Michigan Community College	4,586,420	4,586,420
Monroe County Community College	4,462,223	4,462,223
Montcalm Community College	3,227,530	3,227,530
C. S. Mott Community College	16,291,459	16,291,459
Muskegon Community College	9,271,134	9,271,134
North Central Michigan College	3,140,212	3,140,212
Northwestern Michigan College	9,460,166	9,460,166
Oakland Community College	21,687,988	21,687,988
St. Clair County Community College	7,264,610	7,264,610
Schoolcraft College	12,728,740	12,728,740
Southwestern Michigan College	6,832,843	6,832,843
Washtenaw Community College	12,937,228	12,937,228
Wayne County Community College	17,223,721	17,223,721
West Shore Community College	2,382,344	2,382,344
Grants	4,228,103	4,228,103
Financial Aid	2,000,000	0
TOTAL COMMUNITY COLLEGES	321,732,319	319,732,319

SUMMARY OF FY2003 EXECUTIVE BUDGET BILLS

	All Funds	GF/GP
STATE UNIVERSITIES/GRANTS & FIN. AID		
Operations		
Central Michigan University	90,003,800	90,003,800
Eastern Michigan University	87,637,200	87,637,200
Ferris State University	55,520,300	55,520,300
Grand Valley State University	60,095,400	60,095,400
Lake Superior State University	14,268,700	14,268,700
Michigan State University	325,982,300	325,982,300
Michigan Technological University	55,241,600	55,241,600
Northern Michigan University	52,012,900	52,012,900
Oakland University	52,384,700	52,384,700
Saginaw Valley State University	27,393,300	27,393,300
University of Michigan-Ann Arbor	363,562,700	363,562,700
University of Michigan-Dearborn	27,993,300	27,993,300
University of Michigan-Flint	24,068,100	24,068,100
Wayne State University	253,644,700	253,644,700
Western Michigan University	125,677,200	125,677,200
State and Regional Programs	70,995,100	68,995,100
Martin Luther King, Jr.-Cesar Chavez-Rosa Parks Program	2,990,600	2,990,600
Grants and Financial Aid	249,599,266	124,525,416
TOTAL STATE UNIVERSITIES	1,939,071,166	1,811,997,316
HISTORY, ARTS AND LIBRARIES		
Department Operations	5,245,400	5,245,400
Information Technology	1,166,100	1,166,100
Council for Arts and Cultural Affairs	24,381,700	23,681,700
Mackinac Island State Park Commission	2,950,800	1,836,800
Michigan Historical Program	8,247,100	5,190,800
Library of Michigan	30,273,800	25,554,500
TOTAL HISTORY, ARTS AND LIBRARIES	72,264,900	62,675,300
JUDICIARY		
Supreme Court	36,800,200	24,116,800
Court of Appeals	17,980,700	16,331,900
Branchwide Appropriations	9,263,500	9,263,500
Justices' and Judges' Compensation	92,767,700	85,867,700
Judicial Agencies	1,014,100	1,014,100
Indigent Defense - Criminal	5,775,300	5,168,700
Indigent Civil Legal Assistance	7,337,000	0
Trial Court Operations	73,099,400	37,055,400
Grants and Reimbursements to Local Government	2,550,000	0
TOTAL JUDICIARY	246,587,900	178,818,100

SUMMARY OF FY2003 EXECUTIVE BUDGET BILLS

	All Funds	GF/GP
MICHIGAN STRATEGIC FUND		
Michigan Strategic Fund	155,037,500	46,080,200
TOTAL STRATEGIC FUND	155,037,500	46,080,200
MILITARY AND VETERANS AFFAIRS		
Headquarters and Armories	14,219,500	9,593,900
Military Training Sites and Support Facilities	15,030,200	2,789,800
Departmentwide Appropriations	9,681,200	3,459,400
Veterans' Service Organizations	3,884,400	3,884,400
Grand Rapids Veterans' Home	46,164,700	10,701,100
D.J. Jacobetti Veterans' Home	12,957,800	5,199,200
Michigan Veterans' Trust Fund	5,120,700	344,200
Information Technology	779,000	483,400
TOTAL MILITARY AND VETERANS AFFAIRS	107,837,500	36,455,400
NATURAL RESOURCES		
Executive	2,286,000	614,300
Administrative Services	24,776,500	3,576,300
Departmental Operation Support	2,974,800	1,336,400
Wildlife Management	23,481,300	2,393,300
Fisheries Management	24,322,400	204,000
Parks and Recreation	58,085,400	9,043,200
Forest, Mineral, and Fire Management	35,946,800	7,835,300
Law Enforcement	26,670,300	4,157,300
Payments in Lieu of Taxes	18,414,500	13,738,200
Grants	21,860,500	0
Information Technology	15,599,900	2,650,800
TOTAL NATURAL RESOURCES	254,418,400	45,549,100
SCHOOL AID		
Section 11	12,795,333,400	198,413,500
TOTAL SCHOOL AID	12,795,333,400	198,413,500
STATE POLICE		
Executive Direction	10,745,100	3,680,100
Departmentwide Appropriations	27,652,300	26,537,300
Support Services	18,123,100	14,913,600
Highway Safety Planning	26,014,200	574,300
Criminal Justice Information Center	13,863,300	2,143,800
Forensic Sciences	21,112,100	17,942,800
Michigan Commission on Law Enforcement Standards	12,142,000	1,920,000
Fire Marshal	5,709,300	5,474,300

SUMMARY OF FY2003 EXECUTIVE BUDGET BILLS

	All Funds	GF/GP
STATE POLICE (CON'T)		
Emergency Management	14,449,300	1,743,000
Uniform Services	167,118,700	154,962,400
Special Operations	7,332,600	4,727,200
Criminal Investigations	50,363,800	33,581,800
Motor Carrier Enforcement	19,479,300	1,475,300
Information Technology	22,339,500	20,270,900
TOTAL STATE POLICE	416,444,600	289,946,800
TRANSPORTATION		
Debt Service	143,392,100	0
Interdepartment and Statutory Contracts	121,291,100	0
Executive Direction	3,525,200	0
Administrative Services	19,375,800	0
Information Technology	26,396,400	0
Bureau of Finance and Administration	19,758,200	0
Bureau of Transportation Planning	22,743,700	0
Bureau of Highways	77,872,800	0
Highway Maintenance	232,911,100	0
Road and Bridge Programs	2,171,247,500	0
Blue Water Bridge	10,265,500	0
Transportation Economic Development Fund	42,808,300	0
Bureau of Aeronautics	5,830,600	0
Bureau of Urban and Public Transportation	8,725,400	0
Bus Transit Division: Statutory Operating	168,800,000	0
Intercity Passenger and Freight	28,227,700	0
Public Transportation Development	63,199,700	0
TOTAL TRANSPORTATION	3,166,371,100	0

Capped Sources of Federal Funds Shared Between State Departments

CFDA Number	Title	FY2003 Budget Recommendation
10.664	Cooperative Forestry Assistance	
	Grantee: DNR	2,682,000
	Grantee: Agriculture	1,881,200
16.580	Anti Drug Abuse Act--Byrne Memorial Zero Tolerance	
	Grantee: DCH	20,122,000
	Subrecipient State Agency: State Police	5,376,800
	Subrecipient State Agency: Corrections	255,700
	Subrecipient State Agency: Attorney General	719,100
16.588	Violence Against Women Formula Grants	
	Grantee: FIA	3,500,000
	Subrecipient State Agency: State Police	360,000
	Subrecipient State Agency: Judiciary	269,500
16.727	Enforcing Underage Drinking Laws	
	Grantee: State Police	560,000
	Subrecipient State Agency: Judiciary	50,000
17.207	Employment Service	
	Grantee: Career Development	26,000,000
	Subrecipient State Agency: Unemployment Agency	529,200
	Subrecipient State Agency: DMB	300,100
17.503	Occupational Safety and Health-State Program	
	Grantee: CIS	10,900,000
	Subrecipient State Agency: Attorney General	270,500
20.600	State and Community Highway Safety	
	Grantee: State Police	12,288,300
	Subrecipient State Agency: Judiciary	215,300
	Subrecipient State Agency: DCH	1,837,200
66.460	Nonpoint Source Implementation Grants	
	Grantee: DEQ	6,500,000
	Subrecipient State Agency: Agriculture	105,000
66.801	Hazardous Waste Management State Program Support	
	Grantee: DEQ	3,728,400
	Subrecipient State Agency: Agriculture	150,000
81.041	State Energy Program	
	Grantee: CIS	1,333,400
	Subrecipient State Agency: Agriculture	997,600

Capped Sources of Federal Funds Shared Between State Departments

CFDA Number	Title	FY2003 Budget Recommendation
84.002	Adult Education-State Program	
	Grantee: Career Development	17,300,000
	Subrecipient State Agency: Corrections	1,859,200
	Subrecipient State Agency: FIA	150,000
84.013	Title I Program for Neglected and Delinquent Children	
	Grantee: Education	682,800
	Subrecipient State Agency: FIA	1,115,000
	Subrecipient State Agency: Corrections	512,600
84.027	Special Education-Grants to States	
	Grantee: Education	260,130,100
	Subrecipient State Agency: Judiciary	150,000
	Subrecipient State Agency: FIA	130,000
	Subrecipient State Agency: Corrections	99,400
84.048	Vocational Education-Basic Grants to States	
	Grantee: Career Development	45,000,000
	Subrecipient State Agency: Corrections	272,700
	Subrecipient State Agency: FIA	260,800
84.126	Rehabilitation Services-Vocational Rehab Grants to States	
	Grantee: Career Development	79,500,000
	Subrecipient State Agency: FIA	8,450,000
84.169	Independent Living-State Grants	
	Grantee: Career Development	385,000
	Subrecipient State Agency: FIA	425,000
84.181	Special Ed-Grants for Infants and Families with Disabilities	
	Grantee: Education	13,646,900
	Subrecipient State Agency: FIA	204,000
	Subrecipient State Agency: DCH	120,000
84.186	Safe and Drug-Free Schools and Communities-State Grants	
	Grantee: Education	16,758,400
	Subrecipient State Agency: DCH	5,763,100
	Subrecipient State Agency: FIA	3,000
84.187	Supported Employment Services for Individuals with Severe Disabilities	
	Grantee: Career Development	1,100,000
	Subrecipient State Agency: FIA	110,000

Capped Sources of Federal Funds Shared Between State Departments

CFDA Number	Title	FY2003 Budget Recommendation
84.265	Rehabilitation Training-State Vocational Rehabilitation Unit In-Service Training	
	Grantee: Career Development	400,000
	Subrecipient State Agency: FIA	60,000
93.558	Temporary Assistance For Needy Families	
	Grantee: FIA	667,900,000
	Subrecipient State Agency: Career Development	103,204,250
	Subrecipient State Agency: DCH	14,837,100
	Subrecipient State Agency: Civil Service Cost Allocated	1,600,000
	Subrecipient State Agency: Judiciary	50,000
	Subrecipient State Agency: Education	27,700
93.568	Low-Income Home Energy Assistance	
	Grantee: FIA	91,497,200
	Subrecipient State Agency: Treasury	1,600,000
93.596	Child Care and Development Fund	
	Grantee: FIA	174,995,800
	Subrecipient State Agency: CIS	8,910,400
	Subrecipient State Agency: Education	1,833,500
93.917	HIV Care Formula Grants	
	Grantee: DCH	13,627,900
	Subrecipient State Agency: Corrections	85,800
93.991	Preventive Health and Health Services Block Grant	
	Grantee: DCH	6,115,300
	Subrecipient State Agency: FIA	1,100,000
93.992	Block Grants for Prevention & Treatment of Substance Abuse	
	Grantee: DCH	61,686,900
	Subrecipient State Agency: Corrections	563,200

SPECIAL REVENUE FUNDS SHARED BETWEEN STATE DEPARTMENTS

Fund/Department	FY2003 Budget Recommendation
Bottle Deposits Fund	
Environmental Quality	28,385,700
Treasury	250,000
Comprehensive Transportation Fund	
Transportation	237,231,100
Attorney General	131,500
Civil Service	90,000
Management & Budget	49,900
Legislative Auditor General	48,200
Treasury	5,300
Forest Development Fund	
Natural Resources	23,941,500
Treasury	2,100
Game and Fish Protection Fund	
Natural Resources	59,557,700
Attorney General	640,800
Management & Budget	233,200
Legislative Auditor General	21,400
Treasury	4,200
Game and Fish Protection Trust Fund	
Natural Resources*	6,021,300
Treasury	11,000
Healthy Michigan Fund	
Community Health	33,755,900
State Police	610,000
Treasury	4,100
Marine Safety Fund	
Natural Resources	5,011,400
State	1,048,200
Management & Budget	21,100
Legislative Auditor General	1,900
Treasury	1,700
Michigan Merit Award Trust Fund	
Higher Education	119,573,850
Treasury	19,890,600
Community Colleges	2,000,000

SPECIAL REVENUE FUNDS SHARED BETWEEN STATE DEPARTMENTS

Fund/Department	FY2003 Budget Recommendation
Michigan Natural Resources Trust Fund	
Natural Resources	3,590,300
Treasury	27,200
Michigan Nongame Fish and Wildlife Fund	
Natural Resources	682,500
Treasury	1,500
Michigan State Parks Endowment Fund	
Natural Resources	5,248,500
Treasury	12,100
Michigan State Waterways Fund	
Natural Resources	14,787,500
Treasury	84,400
Attorney General	83,600
Management & Budget	49,700
Legislative Auditor General	5,600
Michigan Tobacco Settlement Trust Fund	
Community Health	70,768,200
Michigan Strategic Fund	45,000,000
Career Development	4,000,000
Higher Education	2,000,000
Michigan Transportation Fund	
Transportation	994,930,000
State	96,493,000
Environmental Quality	884,800
Legislative Auditor General	138,000
Treasury	10,225,000
Michigan Underground Storage Tank Financial Assurance Fund	
Environmental Quality	62,455,700
Treasury	224,400
Attorney General	161,300
State Aeronautics Fund	
Transportation	13,823,300
Attorney General	125,400
Treasury	64,100
Civil Service	50,000
Legislative Auditor General	17,100
Management & Budget	27,900

SPECIAL REVENUE FUNDS SHARED BETWEEN STATE DEPARTMENTS

Fund/Department	FY2003 Budget Recommendation
State Trunkline Fund	
Transportation	711,187,000
State Police	6,853,300
Civil Service	2,000,000
Management & Budget	1,133,900
Legislative Auditor General	404,200
Treasury	29,100
Attorney General	2,556,200

*This amount represents the actual interest and earnings transferred from the Trust Fund into Game & Fish Protection Fund for 2001 and NOT the trust fund balance.



STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

JOHN ENGLER
GOVERNOR

February 7, 2002

Ladies and Gentlemen of the Legislature and Citizens of the State of Michigan:

Article XI, Section 5, of the Michigan Constitution of 1963, provides that increases in rates of compensation for employees in the state classified service, authorized by the Civil Service Commission, require prior notice to the Governor. The Constitution also requires that I, as Governor, transmit such increases to the Legislature as part of my budget.

On December 18, 2001, the Civil Service Commission approved multi-year collective bargaining agreements with seven state employee unions for Fiscal Years 2003, 2004 and 2005. Fiscal Year 2003 increases contained in all seven of these agreements are reflected in this transmittal. The labor agreement for the State Police Enlisted unit is currently in arbitration, thus, it is not included in this correspondence.

The Commission also approved the Fiscal Year 2003 pay and benefit adjustments for non-exclusively represented state classified employees at the December 18, 2001 meeting. These adjustments are in line with the adjustments the Commission authorized for employees covered by collective bargaining agreements.

Attached is a cost summary of all the Civil Service Commission's pay actions for Fiscal Year 2003 prepared by the Office of the State Employer. The net additional cost of these pay and benefit adjustments for Fiscal Year 2003 is estimated to be \$65.1 million including the state's share of FICA and required retirement contributions.

Sincerely,



John Engler
Governor



**Estimated "New" Costs - Summary
Michigan State Classified Service
Fiscal Year 2003**

(10/01/2002 - 9/30/2003)

(NOTE: Amounts do not include roll-up costs associated with overtime and shift differential)

	A-02 MSEA Saf. & Reg.	A-31 MSEA Labor & Trades	C-12 MCO Security	E-42 31-M Human Srv. Support	H-21 MPES Scientific & Engineering	L-32 UTEA Technical	¹ T-01 MSPTA State Police Enlisted	U-11 AFSCME Institutional	W-22 UAW Human Srv.	W-41 UAW Admin. Supt.	MSC's & NERE's	TOTAL ALL UNITS
² Number of Employees - 11/24/01	1,508	2,937	10,048	834	2,087	1,142	1,846	3,192	10,613	8,871	16,909	59,987
² Avg. Hourly Salary - 11/24/01	\$ 19.89	\$ 17.77	\$ 18.50	\$ 18.19	\$ 25.45	\$ 18.87		\$ 16.14	\$ 21.43	\$ 16.71	\$ 26.63	
² Avg. Annual Salary - 11/24/01	\$ 41,530	\$ 37,104	\$ 38,628	\$ 37,981	\$ 53,140	\$ 39,401		\$ 33,700	\$ 44,746	\$ 34,890	\$ 55,603	\$ 43,001
Base Pay Adjustments for FY 2003												
2% Base Wage increase 10/01/2002	\$ 1,252,554	\$ 2,179,475	\$ 7,762,683	\$ 633,518	\$ 2,218,047	\$ 899,909		\$ 2,151,428	\$ 9,497,752	\$ 6,190,269	\$ 18,803,971	\$ 51,589,607
Roll-ups as a result of Base Pay Incr.												
³ FICA/Ret. Blended Rates	21.53%	21.66%	22.62%	20.86%	21.49%	21.38%		21.47%	21.43%	21.24%	21.41%	
³ FICA/Ret. on Base Wage Increase	\$ 269,675	\$ 472,074	\$ 1,755,919	\$ 132,152	\$ 476,658	\$ 192,400		\$ 461,912	\$ 2,035,368	\$ 1,314,813	\$ 4,025,930	\$ 11,136,902
⁴ Life Insurance Increase	\$ 8,233.68	\$ 16,036.02	\$ 54,862.08	\$ 9,107.28	\$ 22,790.04	\$ 12,470.64		\$ 17,428.32	\$ 115,893.96	\$ 96,871.32	\$ 184,646.28	\$ 538,340
⁵ Long Term Disability Increase	\$ 13,027	\$ 22,667	\$ 80,732	\$ 6,589	\$ 23,068	\$ 9,359		\$ 22,375	\$ 98,777	\$ 64,379	\$ 195,561	\$ 536,532
Other Costs												
⁶ Benefit-Dental Increase	\$ 34,858	\$ 67,502	\$ 232,322	\$ 18,475	\$ 47,478	\$ 24,920		\$ 73,283	\$ 239,825	\$ 192,790	\$ 383,268	1,314,722
ERC-Command Officers											\$ 24,273	
Total FY 2003 Additional Costs	\$ 1,578,348	\$ 2,757,754	\$ 9,886,518	\$ 799,841	\$ 2,788,041	\$ 1,139,059	Unknown	\$ 2,726,427	\$ 11,987,616	\$ 7,859,122	\$ 23,617,650	\$ 65,140,376

¹ Currently at PA 312 Arbitration for Fiscal Years 2000, 2001, and 2002. Fiscal Year 2003 negotiations have not been initiated.

² MIDB, VTM_HRM_EMPLOYEES, PP 25. Employment Status Code = AA, AB, AC, AD, AE, AP

³ FY 2002 Rates from DMB/OFM 09/27/2001 memo; Unit rates are weighted by enrollment;
Assumes State maximum contribution for retirement code 40.

⁴ Life insurance increase on incremental cost increase. Rate as of FY 2002. Annual \$5.46 per \$1000 of extra coverage.

⁵ Rates as of FY 2002 - ((Increase/100)*1.04

⁶ Provided from Delta Dental. First of two years of costs.
Dec-2001

**Legislation Necessary to Implement
Fiscal Year 2003 Executive Budget**

Department	Purpose	Public Act or MCLA Being Amended
Agriculture	Pesticide fee increase	1994 PA 451 (Part 83) <i>MCL 324.8317</i>
Consumer & Industry Services	Michigan Employment Security Act Contingent Fund	1936 PA 1 (Ex. Sess.) <i>MCL 421.10</i>
Corrections	<ol style="list-style-type: none"> 1. Probation supervision fee, youthful trainee 2. Delayed sentence supervision fee 3. Probation supervision fee 4. Interstate offender supervision fee 5. Parole supervision fee 	<ol style="list-style-type: none"> 1. 1927 PA 175 <i>MCL 762.13</i> 2. 1927 PA 175 <i>MCL 771.1</i> 3. 1927 PA 175 <i>MCL 771.3c</i> 4. 1953 PA 232 <i>MCL 791.225a</i> 5. 1953 PA 232 <i>MCL 791.236a</i>
Environmental Quality	<ol style="list-style-type: none"> 1. Septage fees 2. Repeal medical waste statute 	<ol style="list-style-type: none"> 1. 1994 PA 451 (Part 117) <i>MCL 324.11703</i> 2. 1978 PA 368 <i>MCL 333.13801 – 13831</i>
Higher Education	Repeal Midwestern Higher Education Compact	1990 PA 195 <i>MCL 390.1531 - 1532</i>
Management & Budget	Budget Stabilization Fund withdrawal	1984 PA 431 <i>MCL 18.1353c</i>
Natural Resources	Convert payments in lieu of taxes to grants	1994 PA 451 <i>MCL 324.2153 - 2154</i>

Department	Purpose	Public Act or MCLA Being Amended
State Police	<ol style="list-style-type: none"> 1. Fingerprint processing fee 2. Application fee for order setting aside conviction 3. Private detective license renewal fee 4. Fingerprint and background check fee for security guards 5. Private security guard/security alarm renewal fee 	<ol style="list-style-type: none"> 1. 1935 PA 120 <i>MCL 28.273</i> 2. 1965 PA 213 <i>MCL 780.621</i> 3. 1965 PA 285 <i>MCL 338.846</i> 4. 1968 PA 330 <i>MCL 338.1068</i> 5. 1968 PA 330 <i>MCL 338.1075</i>
Treasury	<ol style="list-style-type: none"> 1. State Education Tax proposal – General Property Tax Act 2. State Education Tax 3. Airport parking tax/ bonding proposal 4. Lottery apportionment sunset repeal 	<ol style="list-style-type: none"> 1. 1893 PA 206 <i>MCL 211.24e</i> 2. 1993 PA 331 <i>MCL 211.905</i> 3. 1987 PA 248 <i>MCL 207.377 - .378</i> 4. 1972 PA 239 <i>MCL 432.12</i>
Transportation	<ol style="list-style-type: none"> 1. Repeal of Budget Stabilization Fund payment 2. Motor fuel tax act revisions 3. Diesel tax simplification 4. Commercial highway fund 5. Convert sales tax on diesel to use tax 6. Transportation asset management 	<ol style="list-style-type: none"> 1. 1984 PA 431 <i>MCL 18.1358</i> 2. 2000 PA 403 <i>MCL 207.1008 & 207.1152</i> 3. 1980 PA 119 <i>MCL 207.211, .212 & .214</i> 4. 1951 PA 51 <i>Several MCL sections</i> 5. 1933 PA 167 <i>MCL 205.56a</i> 6. 1951 PA 51 <i>New MCL section</i>

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